DA SEN HOLDINGS GROUP LIMITED
大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1580

Annual Report
2016

CONTENT PAGE

In case of any inconsistency between the English version and the Chinese version of this annual report, the English version shall prevail.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"Board"	the board of Directors
"CAGR"	compound annual growth rate
"China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this annual report, references to China do not include Taiwan, the Hong Kong Special Administrative Region of the People's Republic of China or the Macao Special Administrative Region of the People's Republic of China
"Company"	Da Sen Holdings Group Limited
"Dasen (Heze)"	Dasen (Heze) Biomass Energy Limited (大森(菏澤)生物質能源有限公司), the Company's indirect wholly-owned subsidiary established in the PRC
"Director(s)"	the director(s) of the Company
"Group", "our Group", "we", "us" or "our"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Meisen (Shandong)"	Meisen (Shandong) Wood Limited (美森(山東)木業有限公司), the Company's indirect wholly-owned subsidiary established in the PRC
"Prospectus"	prospectus of the Company dated 7 December 2016
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of the Company, with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of United States of America

BOARD

Mr. KE Mingcai	*(Chairman and executive Director)*
Mr. WANG Songmao	*(Chief executive officer and executive Director)*
Mr. ZHANG Ayang	*(Executive Director)*
Mr. WU Shican	*(Executive Director)*
Mr. LIN Triomphe Zheng	*(Independent non-executive Director)*
Mr. SHAO Wanlei	*(Independent non-executive Director)*
Mr. WANG Yuzhao	*(Independent non-executive Director)*

COMPANY SECRETARY

Mr. LAU Chung Wai *(FCPA (Practising))*

AUDIT COMMITTEE

Mr. LIN Triomphe Zheng *(Chairman)*
Mr. SHAO Wanlei
Mr. WANG Yuzhao

REMUNERATION COMMITTEE

Mr. WANG Yuzhao *(Chairman)*
Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei

NOMINATION COMMITTEE

Mr. SHAO Wanlei *(Chairman)*
Mr. KE Mingcai
Mr. WANG Yuzhao

RISK MANAGEMENT COMMITTEE

Mr. WU Shican *(Chairman)*
Mr. ZHANG Ayang
Mr. LIN Triomphe Zheng

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. KE Mingcai
Mr. LAU Chung Wai

EXTERNAL AUDITOR

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

COMPLIANCE ADVISER

China Industrial Securities International Capital Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room Nos. 2413-2415, 24th Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wan Chai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Economic Development Zone
Sunsi Town
Chengwu
Shandong, PRC

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Shanghai Pudong Development Bank
Bank of China (Hong Kong) Limited

STOCK CODE

1580

COMPANY'S WEBSITE

http://www.msdscn.com

Dear Shareholders,

On behalf of the Board, I am pleased to present the first annual report since the listing of the Shares on the Stock Exchange for the year ended 31 December 2016.

In 2016, in the environment of downward pressure on the economy, the Company adhered to the expansion of its market share, improved the product quality and actively participated in the reform and upgrade to overcome all kinds of severe challenges. On 19 December 2016, the Company was successfully listed on the Stock Exchange, which started a new chapter for the business development of the Group. The listing has not only provided additional capital funding to the Group, it also improved the brand and image of the Group, which created more advantages for the future development of the Group.

Looking ahead at 2017, despite the uncertainty in the macro-economic environment, with wide application areas of the Group's products, the market will maintain stable and healthy growth. The Group will continue to provide quality products to the customers with its strong abilities in research and development and production, so as to respond to the fast and ever changing market trend.

In step with its business growth, the Group will expand the current scale of production, build new factories and install new automated equipment and machinery to enhance the automation level of its production process, thereby boosting the Group's designed production capacity. Meanwhile, the Group will continue to expand its sales channels, set up sales offices in various regions in China, strengthen the regional sales capability and respond to the customers' demands in a timely manner, so as to improve the market competitiveness of the Group.

Finally, on behalf of the Board and the management, I would like to extend my sincere gratitude to all the staff for their hard work and contribution to the Group during the year 2016. Moreover, I would also like to express my appreciation for the continuing support of all Shareholders, investors, customers and partners.

KE Mingcai
Chairman

Hong Kong, 27 March 2017

EXECUTIVE DIRECTORS

Mr. KE Mingcai (柯明財), aged 43, is the Chairman and executive Director. He is the brother-in-law of Mr. Cai Jinxu, one of the controlling Shareholders. Mr. Ke joined the Group in December 2010 and is responsible for the overall planning and strategic development of the Group's business. Prior to joining the Group, Mr. Ke worked as a general manager in Fujian Jinjiang Qi Ren CPU Co. Ltd (福建省晉江市奇仁聚氨酯製品有限公司), a company engaging in the manufacturing of polyurethane soles, shoes and garment, from 30 August 2002 to 31 December 2011. He had been the president of Fujian Li Rong Trading Development Co. Ltd (福建省力榮商貿發展有限公司), a company engaging in the sale of garment and shoes, and the material of those, since 13 July 2005. Mr. Ke also has more than five years of experience in the wood industry and more than 10 years in the trading industry.

Furthermore, Mr. Ke has served as a member of the 17th People's Congress of Chengwu County, Heze City since January 2012. He is currently the chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會). In July 2015, Mr. Ke obtained a diploma in finance and securities at the Dongbei University of Finance and Economics (東北財經大學) in the PRC.

Mr. WANG Songmao (王松茂), aged 43, is the chief executive officer and executive Director. Mr. Wang joined the Group in December 2010 and is responsible for the general operations and formulating the policies for the Group. Mr. Wang has manufacturing experiences and management skills from his experience in the garment industry for over 11 years. Since 30 June 2005, he has been the president of Jiangsu Kunshan Long De Sheng Costume Co. Ltd (江蘇省昆山市隆德盛服飾有限公司), a company engaging in the manufacturing of plastic, plastic signage, paper signage, fabric signage, metal signage, wood product and the sale of wood products. He has also been the president of Bao Wei Automotive Technology (Jiangsu) Co. Ltd (寶瑋汽車科技(江蘇)有限公司), a company engaging in the development and sale of automobile and automobile components, since 3 December 2013.

Mr. Wang has been a member of the 14th session of the Chinese People Political Consultative Conference of Heze City, Shandong Province since January 2015 and a member of the 17th People's Congress of Chengwu County, Heze City since January 2012. He is currently the vice chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會).

Mr. ZHANG Ayang (張啊阳), aged 40, is the executive Director responsible for sales and marketing strategy and overseeing the sales of the Group. Mr. Zhang joined the Group in December 2010 as the head of sales department. Mr. Zhang was promoted as the general manager of Dasen (Heze) in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company (晉江市青陽信億建材商行), engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material.

Mr. WU Shican (吳仕燦), aged 43, is the executive Director responsible for the general operations and administrative management of the Group. Mr. Wu joined the Group in December 2010. From 1996 to 2000, Mr. Wu acted as legal representative of Xiamen Qi Li Furniture Development Company Limited (廈門市奇麗家具發展有限公司), which was engaged in the manufacturing and sales of furniture. Mr. Wu served as the chief executive officer of Guangzhou Baiyun Tai Chuan Garment Factory (廣州白雲區太川製衣廠), a company engaging in garment manufacturing from August 2010 to December 2012, and thus has acquired experience in the manufacturing industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIN Triomphe Zheng, aged 49, was appointed as the independent non-executive Director on 25 November 2016. Mr. Lin graduated from Xiamen University (廈門大學) in the PRC in July 1987 with a bachelor of arts degree. Mr. Lin further obtained his bachelor of commerce from Macquarie University, Australia in September 1997, majoring in accounting and finance. In January 2000, Mr. Lin was conferred by the CPA Australia as a certified practising accountant. In December 2000, Mr. Lin was first appointed by the Attorney General of New South Wales as a Justice of the Peace (NSW).

Mr. Lin has over 17 years of commercial and professional working experience in both Australia and China. Mr. Lin has extensive experience in corporate finance and financial advisory for wide range of industries, as well as in audit and initial public offering services. Mr. Lin was the international business director of BDO China Zhonglian Mindu Shu Lun Pan CPAs LLP, Fujian Office (立信會計師事務所(特殊普通合伙)福建分所) (previously known as Lixin Zhonglian Mindu CPAs (立信中聯閩都會計師事務所)), an accounting firm in China, from July 2007 to January 2014. Since February 2014, Mr. Lin has been the founding member at Moore Stephens Dahua CPAs LLP, Fujian Office, an accounting firm in China.

Mr. SHAO Wanlei (邵萬雷), aged 49, was appointed as the independent non-executive Director on 25 November 2016. Mr. Shao obtained his LL.M. (法學碩士) degree from Nanjing University (南京大學) in the PRC in June 1999 and his LL.M. degree from Georg-August-University of Göttingen, Germany in October 1997. Mr. Shao was admitted as a lawyer in China in 1994. Mr. Shao founded Shao Wanlei Law Office, a law firm in China, in October 2005. In May 2008, Mr. Shao established Luther Law Offices in the PRC, and since then has served as a managing partner.

Mr. WANG Yuzhao (王玉昭), aged 46, was appointed as the independent non-executive Director on 25 November 2016. Mr. Wang obtained his Ph.D. in management studies from Northeast Forestry University (東北林業大學) in the PRC in July 2008. From February 2011 to June 2014, Mr. Wang was engaged in postdoctoral research in applied economics in the Research Institute for Fiscal Science, Ministry of Finance, China (財政部財政科學研究所) while serving as a manager assistant in the safety and quality department of China Railway 16th Bureau (中鐵十六局). Mr. Wang has been a distinguished professor and mentor for graduate students at the Northeast Forestry University (東北林業大學) in the PRC since June 2012 and Zhejiang Sci-Tech University (浙江理工大學) in the PRC since January 2014.

Mr. Wang is now the vice general manager of the Management System Certification Center of Beijing Huadian Wanfang (北京華電萬方管理體系認證中心).

SENIOR MANAGEMENT

Mr. LAU Chung Wai (劉仲緯), aged 34, has been the chief financial officer and company secretary of the Group since August 2015 and is responsible for overseeing the investment, legal and financial affairs of the Group. Mr. Lau has over 12 years of experience in accounting and finance, and is a fellow practising member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Lau was a manager of the assurance service team in Ernst & Young from September 2004 to September 2011, a finance manager in a media company which is a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (Stock code: PUB. PA), from September 2011 to April 2013, and a group financial controller of an enterprise engaging in the manufacturing of furniture and home decoration products in the PRC from May 2013 to July 2015. Mr. Lau obtained his bachelor in business administration from the Hong Kong University of Science and Technology in 2004.

Mr. WU Zhibin (吳志斌), aged 38, has been the financial controller responsible for financial affairs of the Group's PRC operations since March 2013. Mr. Wu obtained his diploma in accounting from Huaqiao University (華僑大學), the PRC in June 1999. He was also awarded the Certificate For Passing All The Required Subjects Of The Professional Stage of The National Uniform CPA Examination of P.R. China (註冊會計師全國統一考試專業階段考試合格證) in January 2012. From September 2007 to January 2013, he worked as a project manager on corporate finance matters at Xiamen Zhi Miao Financial Consulting Limited (廈門智淼財務顧問有限公司).

Mr. ZHANG Donghua (張東華), aged 51, is the deputy general manager responsible for overseeing the Group's production of plywood products. Mr. Zhang joined the Group in February 2014. Mr. Zhang obtained his bachelor in wood processing from the Forestry College of Jilin (吉林林學院) in the PRC in July 1987 and was also conferred a certificate of graduation in April 1988 for attending the TQC Backbone Staff Training Course (TQC骨幹培訓班) organised by the Jilin Quality Control Society (吉林省質量管理協會) and the School of Management, Jilin University (吉林工業大學管理學院). Mr. Zhang qualified as an engineer in January 1997 by the China Jilin Forest Industry Group (中國吉林森林工業 (集團) 總公司). Mr. Zhang was also awarded the Certificate of Third Class Contribution (立功證三等功) by the Forestry Administration of Linjiang City (臨江林業局) in November 1994. In March 1996, Mr. Zhang was awarded the Prize of Idea for Technology (科技建議獎) by the Jilin Society of Forestry (吉林省林學會). Mr. Zhang was also qualified as an internal system quality auditor (質量體系內部審核員) by the Beijing Jiuqian Standard Quality System Accreditation Centre (北京九千標準質量體系認證中心) in June 2001. From June 1987 to May 1999, Mr. Zhang worked at the Wood Manufacturing Factory (later known as Artificial Board Company (人造板公司)) of Forestry Administration of Linjiang of China Jilin Forest Industry Group (吉林森工集團臨江林業局制材廠) with his last position as engineer.

Mr. PENG Zhiwei (彭志偉), aged 43, is our deputy general manager responsible for overseeing the Group's production of biomass wood pellets. Mr. Peng joined the Group in March 2012. Mr. Peng obtained his diploma in mechatronics from Hengyang Institute of Engineering (衡陽文理專科學校) in the PRC in July 1995. In April and May 2007, Mr. Peng was respectively conferred the Professional Qualification Certificate for Logistician (物流師職業資格證書) and the Certificate for the Satisfaction of Training of the Accreditation of Professional Qualification for Logistician (物流師職業資格認證培訓合格證書) by China Federation of Logistics and Purchasing (中國物流與採購聯合會) and the National Logistics Standardization and Technology Committee (全國物流標準化技術委員會).

INDUSTRY REVIEW

Plywood products

The supply of poplar plywood in China increased at a CAGR of approximately 19.9% from 2010 to 2015, and is expected to increase at a CAGR of approximately 11.1% till 2019. Shandong Province, where the Group's production base is located, is the largest poplar plywood supply region among all the provinces abundant in poplar resources, which contributed approximately 39.9% of the total production volume of poplar plywood in China in 2015. As of the end of 2015, there were approximately 4,000 plywood manufacturers in China, with the Group taking approximately 0.10% of the share of total industry revenue and ranking the fourth for 2015.

Biomass wood pellets

The market value of biomass wood pellets in China has been growing at approximately 50.5% from year 2010 to 2015. The constant growth of market value of biomass wood pellets is largely driven by governmental support on the industry. It is expected that most coal boilers in first-tier and second-tier cities in China will be replaced by biomass boilers by 2017. For the year ended 31 December 2015, the top five biomass wood pellets manufacturers in China accounted for approximately 1.92% of total market value in the industry, with the Group taking approximately 1.26% of the share of total industry revenue and ranking the first.

BUSINESS REVIEW

The Group's principal business is the manufacture and sale of plywood products and biomass wood pellets (木製生物質顆粒) in China, and both of which are made from wood. The Group's plywood products are mainly made of poplars while the Group uses wood residues (also known as sanshengwu (三剩物)) to produce biomass wood pellets.

The Group is strategically located in Heze City, Shandong Province in China for close access to the local abundant supply of poplars, being the Group's principal raw materials.

The Group also fully utilises raw materials and automated production lines to control the production costs and maintain a high environmental protection standard. The Group's current management team emphasises stringent quality control in both plywood products and biomass wood pellets, raising the recognition among the customers continuously, making huge contribution to the business growth of the Group.

Plywood products

The Group's plywood products consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), which are mainly made of poplar. Customers usually use the Group's plywood products as materials for interior decoration or furniture making, and some customers trade the Group's plywood products to their downstream customers. Those three types of plywood products serve similar functions to customers of the Group and the main differences are on certain specifications, such as the level of moisture content, the hardness and the water resistance capability. The total revenue of the Group is mainly contributed by the sales of plywood products, which accounted for approximately 78.0% of the total revenue for the year ended 31 December 2016.

Given the strategic location of the production base of the Group in Heze City, Shandong Province in China, there have been abundant resources of poplars, which provides a solid supply bases for the Group's manufacture of plywood products on a sustainable basis. In addition, the Group is one of the major customers in purchasing wood-based raw materials in Heze City, Shandong Province. Accordingly, the Group enjoys a stable and relatively lower cost of raw materials for the manufacture of plywood products.

Customers of the Group's plywood products are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and there are also some trading companies sourcing plywood products from the Group for on-selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located at Eastern China and Southern China regions. The Group maintains a large customer base for the plywood products and there were totally 146 customers of plywood products for the year ended 31 December 2016, out of which the five largest customers contributed for less than 35% of the total revenue of plywood products.

Biomass wood pellets

The Group produces biomass wood pellets using wood residues (also known as sanshengwu (三剩物)). Biomass wood pellets is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal. Biomass wood pellets also have competitive edge in transport, storage, combustibility and emission as compared to traditional fuel due to its solid nature and its smaller size. Biomass wood pellets contains zero sulfate and phosphorous, therefore no pollution gas and contents would be released after burning. These enable biomass wood pellets to become the symbol of new generation fuel. Customers usually use the Group's biomass wood pellets as fuel to generate energy or trade to their downstream customers.

The Group uses wood residues as raw materials to produce biomass wood pellets. The Group first utilise the wood residues generated internally during the production process of plywood products. Those internally generated wood residues brings synergy effect to the Group as free supply of raw materials for producing biomass wood pellets. The Group then sources wood residues locally from wood product manufacturers nearby after using up all internally generated wood residues. Given Heze City, Shangdong Province in China has abundant resources of poplars, there are a large number of wood product manufacturers and therefore the supply of wood residues are also sufficient and at lower costs for the Group's production of biomass wood pellets.

Customers of the Group's biomass wood pellets are mainly end users and there are only limited number of trading companies sourcing biomass wood pellets from the Group for on-selling to their downstream customers. Most customers of the Group's biomass wood pellets are located at Eastern China and Southern China regions. The Group maintains a diversified customer base for the biomass wood pellets and there were totally 96 customers of biomass wood pellets for the year ended 31 December 2016, out of which the five largest customers contributed for less than 10% of the total revenue of biomass wood pellets.

Recent development

Set up of sales offices in Shanghai and Fujian Province

Management of the Group has a view that the demand for both plywood products and biomass wood pellets in China will continue to grow. Accordingly, the Group has planned to expand the sales network by establishing sales offices in certain regions in China in addition to the sales and marketing functions maintained in Heze City, Shandong Province, the headquarter of the Group. The Group is currently in the process of setting up its first two sales office in Shanghai and Fujian Province, respectively, and expects they will start operating in the second quarter of 2017.

Expansion of the peeling function in the production line for plywood products

The Group produces plywood products using plywood veneers peeled from the poplar logs. The plywood veneer can either be peeled from poplar logs by rotary lathe processed by the Group, or purchased directly from the local suppliers. In the past, the Group decided to have the production team focusing on other production processes and outsourced most of the peeling functions to the local suppliers. Considering that (i) there has been a significant increase in the production volumes of plywood products over the past years and it is more cost effective to expand internal peeling functions with the enlarged production volumes; and (ii) more wood residues can be generated in the peeling process as free supply of raw materials to the production of biomass wood pellets and such internally generated wood residues has higher quality with less foreign materials, such as stones and metal, as compared to those purchases from outside suppliers, the Group has decided to invest in expanding the peeling function of the production line for plywood products and has recently purchased some new rotary lathes which are more automated and advanced than the existing models. The Group expects such expansion would help lower the production costs for both plywood products and biomass wood pellets in the long run.

OUTLOOK

There is a trend of slowdown of economic growth in China and also the depreciation of Renminbi. Notwithstanding, management of the Group believes that there would be a stable demand for the Group's products, the plywood products in particular, because customers of the Group source the Group's products mainly for producing non-high-end products, such as furniture and equipment with medium prices, and the market demand on those products are relatively stable in spite of the gradual change in the economy. In addition, some of the Group's customers are running export businesses and management of the Group estimates that the depreciation of Renminbi would have favourable effect to the export sales of the Group's customers, resulting in an increasing demand on the Group's products for their production or consumption.

There is an understanding that China is keen on looking for clean, efficient and new alternative energy sources mainly to save the scarce natural resources and protect the environment. However, the bioenergy industry in China is still believed to be underdeveloped for the reasons of low biomass production technique, small production scale and high cost of production. Notwithstanding, management of the Group observed that there has been fast development for biomass energy in China in recent years and estimates that the development would sustain in the foreseeable future. Given the Group has already launched the biomass wood pellets, being one of the biomass energy, for a number of years and also has continuous investment in the research and development of the biomass wood pellets production, management of the Group is optimistic that the Group has competitive advantage in the quality of the products and can capture the potential growing bioenergy market in the foreseeable future.

The Group is currently in the process of setting up its first two sales offices in Shanghai and Fujian Province, respectively, and they are estimated to start operating in the second quarter of 2017. The Group secured new customers mainly through referral from existing customers and the participation in industry exhibitions to promote the Group's products in the past. Management of the Group believes that these new sales offices would facilitate the Group in reaching new pool of customers in respective regions, boosting our sales in the near future.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2016, the Group achieved an overall steady growth in revenue of approximately 22.4%, from approximately RMB380.9 million for the year ended 31 December 2015 to approximately RMB466.1 million for the year ended 31 December 2016.

The Group's plywood products had more contribution to the revenue growth of the Group for the year ended 31 December 2016. Revenue arising from sales of plywood products increased from approximately RMB284.2 million for the year ended 31 December 2015 to approximately RMB363.7 million for the year ended 31 December 2016, representing a growth rate of approximately 28.0%. Such growth was mainly because of the increased number of purchase orders from the existing customers during the year ended 31 December 2016.

There is a steady growth on the sales of the biomass wood pellets for the year ended 31 December 2016, increasing from approximately RMB96.7 million for the year ended 31 December 2015 to approximately RMB102.4 million for the year ended 31 December 2016, representing a growth rate of approximately 6.0%.

Gross profit

The overall gross profit margin of the Group maintained at a similar level for the year ended 31 December 2016, changing from approximately 21.9% for the year ended 31 December 2015 to approximately 22.8% for the year ended 31 December 2016.

Other income

Other income of the Group mainly represented income earned from refund of value-added tax arising from the sales of the biomass wood pellets, which is according to the policy erected by the State Administration of Taxation of the PRC for saving scarce natural resources and protecting the environment, and also income from sales of poplar core being the residuals generated from the production of the Group's plywood products. Increase in other income is in line with the increase in sales of plywood products and biomass wood pellets.

Selling and distribution expenses

There was a decrease of approximately RMB2.0 million in selling and distribution expenses for the year ended 31 December 2016, dropping from approximately RMB2.9 million for the year ended 31 December 2015 to approximately RMB0.9 million for the year ended 31 December 2016. Such decrease was mainly due to the change in the delivery arrangement for the biomass wood pellets during the year ended 31 December 2015. In the past, the Group provided options to customers of biomass wood pellets to engage the Group to arrange delivery of biomass wood pellets to their designated locations. However, there were feedbacks from some of the customers that they had preferences in deploying their own transportation teams for a more cost effective delivery of biomass wood pellets to their designated locations. The Group therefore decided to terminate such delivery arrangements since March 2015, and accordingly, delivery expenses have been saved, resulting in a drop in the selling and distribution expenses for the year ended 31 December 2016.

Administrative expenses

There was an increase of approximately RMB14.0 million in administrative expenses for the year ended 31 December 2016, increasing from approximately RMB20.6 million for the year ended 31 December 2015 to approximately RMB34.6 million for the year ended 31 December 2016. Such increase was mainly due to the more non-recurring listing expenses incurred during the year ended 31 December 2016 in relation to the initial public offering of the Shares (the "**IPO**"). The preparation work for the IPO commenced in 2015 and most of the work was performed during the year ended 31 December 2016, resulting an increase in listing expenses of approximately RMB5.7 million for the year ended 31 December 2016. In addition, additional research and development expenses of approximately RMB2.5 million were incurred for the year ended 31 December 2016, increasing from approximately RMB4.5 million for the year ended 31 December 2015 to approximately RMB6.9 million for the year ended 31 December 2016, mainly to support the product testing and modifications to meet customers' needs. Apart from the above, the Group also incurred losses of approximately RMB2.7 million arising from the impairment of trade receivables. Management assessed the outstanding balances from debtors as at 31 December 2016 and after considering, amongst others, the financial strength of the debtors, the number of days outstanding for the balance and also the settlement records of the debtors, impairment on specific trade receivables balance have been made. Notwithstanding, management of the Group will still strive to closely follow up all outstanding balances from debtors to minimise the loss.

Finance expenses

There was a decrease in finance expense for the year ended 31 December 2016, dropping from approximately RMB5.4 million for the year ended 31 December 2015 to approximately RMB4.5 million for the year ended 31 December 2016. Such decrease in the finance expenses was mainly due to a lower average effective interest rate enacted by the financial institutions to the Group for the year ended 31 December 2016.

Income tax expense

There was an increase of approximately RMB5.6 million in the income tax expenses for the year ended 31 December 2016, increasing from approximately RMB16.4 million for the year ended 31 December 2015 to approximately RMB22.0 million for the year ended 31 December 2016, which was mainly due to the increase in the operating profits earned in China for the year ended 31 December 2016.

The overall effective tax rate of the Group increased from approximately 26.7% for the year ended 31 December 2015 to approximately 29.3% for the year ended 31 December 2016. Such increase was mainly because of the increase in listing expenses incurred in Hong Kong for the year ended 31 December 2016 which was not deductible for income tax purpose.

Total comprehensive income attributable to Shareholders

There was an increase of approximately 17.7% in the total comprehensive income attributable to owners of the Company for the year ended 31 December 2016, from approximately RMB45.2 million for the year ended 31 December 2015 to approximately RMB53.2 million for the year ended 31 December 2016, which was mainly contributed by the increase in sales of plywood products during the year ended 31 December 2016.

Property, plant and equipment

The size of the Group's existing production plants for both plywood products and biomass wood pellets were sufficient to support the Group's production plans for the year ended 31 December 2016, and therefore there was no expansion for the Group's production plants during the year ended 31 December 2016.

As at 31 December 2016, items of property, plant and equipment with carrying amount of approximately RMB58.3 million were pledged to the financial institution in favour of some of the bank borrowings advanced to the Group.

Inventory

The Group's inventory balances as at 31 December 2016 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB12.1 million, from approximately RMB34.5 million as at 31 December 2015 to approximately RMB46.6 million as at 31 December 2016, was mainly due to more work in progress and finished goods of plywood products stored up as at 31 December 2016 to meet the production and sales plan in January 2017.

Trade receivables

Trade receivables balance as at 31 December 2016 mainly represented outstanding balance from customers of our plywood products. There was an increase in trade receivables balance before allowance for impairment of approximately RMB69.7 million, from approximately RMB58.9 million as at 31 December 2015 to approximately 128.6 million as at 31 December 2016. In spite of such significant increase, the Group has maintained the overdue portion at similar level due to the fact that our sales of plywood products in the last quarter of the year 2016 outperformed when compared to the year of 2015, recording an increase in sales of plywood products of approximately 42.0%.

Given the Group has recorded a significant increase of trade receivable balance as at 31 December 2016, a specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB2.7 million of impairment loss of trade receivable balances was recorded as at 31 December 2016.

Cash and cash equivalents

Upon the successful listing of the Shares on 19 December 2016, the Group has received net proceeds of approximately RMB107.3 million through issuance of 180,000,000 Shares up till 31 December 2016, resulting in a significant increase of the Group's cash and cash equivalents balance as at 31 December 2016 of approximately RMB118.7 million, from approximately RMB9.0 million as at 31 December 2015 to approximately RMB127.7 million as at 31 December 2016.

Since the net proceeds from the IPO were just received by the Company shortly before the end of the year 2016, the plan for the use of proceeds as disclosed in the Prospectus had not been executed yet as at 31 December 2016, and the received net proceeds were deposited in financial institutions as at 31 December 2016 for use as stated in the Prospectus.

Borrowings

The source of debt financing of the Group was mainly from banks. As at 31 December 2016, the Group had borrowings of RMB84 million advanced from banks located in China. All of the bank borrowings were current in nature and subject to renewal upon maturity. Certain items of property, plant and equipment and also the land use rights with carrying amounts of approximately RMB81.6 million were pledged to some of the banks to secure the bank borrowings advanced to the Group. Over the past year, the Group succeeded in lowering the average effective interest rate of the Group from approximately 7.7% as at 31 December 2015 to approximately 6.4% as at 31 December 2016. Upon the successful listing of the Shares on the Stock Exchange by the end of 2016, the Group is in the process of negotiating better borrowing terms with the existing banks and also other potential banks hoping to further lower the finance costs of the Group in the long run.

Upon the successful listing of the Shares on the Stock Exchange, the Group submitted requests to the banks to release the personal guarantees from the key management personnel of the Group in relation to the Group's bank borrowings as committed by the banks. All such personal guarantees have been subsequently released.

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 13 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

The Group's business review covers the followings:

- industry, business and financial overview for the year ended 31 December 2016;
- the principal business risks and uncertainties faced by the Group for the year ended 31 December 2016;
- the principal financial risks faced by the Group for the year ended 31 December 2016;
- impact of important events occurred and recent developments after 31 December 2016 and up to the date of this report;
- compliance with laws and regulations that have significant impacts to the Group for the year ended 31 December 2016; and
- relationships with key stakeholders for the year ended 31 December 2016.

Compliance with laws and regulations

The Group complied with the relevant laws and regulations that have a significant impact to the Group for the year ended 31 December 2016, inter alias, the followings:

- timber processing production and bio-energy law of the PRC (such as Regulations of the Forestry Law of the PRC (中華人民共和國森林法實施條例), Forestry Law of the PRC (中華人民共和國森林法) and Law on Renewable Energy of the PRC (中華人民共和國可再生能源法));
- Product Quality Law of the PRC (中華人民共和國產品質量法);
- PRC laws and regulations relating to taxation and foreign exchange (such as Law of the PRC on Enterprise Income Tax (中華人民共和國企業所得稅法), Temporary Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) and Administrative Regulations on Foreign Exchange of the PRC (中華人民共和國外匯管理條例));
- PRC laws and regulations relating to environmental protection (such as Environmental Protection Law of the PRC (中華人民共和國環境保護法)); and
- PRC laws and regulations relating to production safety and labor.

Relationship with key stakeholders

Customers and suppliers
The Directors believe that maintaining good relationships with customers, suppliers and employee is critical for the success of the Group's business.

During the year ended 31 December 2016, the Group was successful in maintaining a good relationship with certain major customers, who have increased their number of purchase orders, and has also secured some new customers through referral from existing customers that are in good relationship with the Group, which is one of the key factors for the steady growth of the Group's revenue for the year ended 31 December 2016.

Employees
The Group, in addition to the monetary rewards granted to the employees, also provide training courses to employees to enable them to achieve self-development and to enhance their skill and knowledge. The Group believes that it would help enhance job satisfaction to employees who would in return bring a higher value to the Group to support the growth.

Some other details of the business review can be found in the following sections of this annual report:

- management discussion and analysis section set out on pages 9 to 15 of this annual report; and
- note 3 and note 29 to the Group's consolidated financial statements.

The above discussion forms part of this report of the Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2016 and the Group's financial position at that date are set out in the consolidated financial statements on pages 49 to 107.

The Directors do not recommend the payment of any dividends for the year ended 31 December 2016.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the issue of new Shares at the time of its listing on the Stock Exchange in December 2016 and January 2017, after deduction of related issuance expenses, amounted to approximately RMB110,016,000. These proceeds were not applied during the year ended 31 December 2016.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last four financial years, as extracted from the Group's audited consolidated financial statements, is set out on page 108 of this annual report. This summary does not form part of the audited consolidated financial statements of the Group.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2016 are set out in note 19 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders of the Company.

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB95,750,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 35.5% of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 8.3%.

None of the Directors 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 suppliers.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with the controlling Shareholders (collectively referred to as the "Covenantors") on 25 November 2016 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing.

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the period between the date of listing of the Shares and 31 December 2016.

PROPERTY HELD

As at 31 December 2016, there was no property held for development and/or sale or for investment purpose for which the percentage ratios, as defined under Rule 14.04(9) of the Listing Rules, exceeded 5%.

PROPERTY INTERESTS AND PROPERTY VALUATION

The Group's land use rights and plants, included in the Group's consolidated financial statements at cost, were valued at RMB103,000,000 as at 31 October 2016 in the Prospectus. Had the Group's land use rights and plants been included in these financial statements at such valuation amount throughout the year ended 31 December 2016, an additional amortisation and depreciation of approximately RMB24,000 would have been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2016.

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. KE Mingcai (Chairman)
Mr. WANG Songmao (Chief executive officer)
Mr. ZHANG Ayang
Mr. WU Shican

Independent non-executive Directors:

Mr. LIN Triomphe Zheng	(appointed on 25 November 2016)
Mr. SHAO Wanlei	(appointed on 25 November 2016)
Mr. WANG Yuzhao	(appointed on 25 November 2016)

In accordance with articles 84(1) and 84(2) of the articles of association of the Company, Mr. KE Mingcai, Mr. WANG Songmao, and Mr. ZHANG Ayang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. The independent non-executive Directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. LIN Triomphe Zheng, Mr. SHAO Wanlei and Mr. WANG Yuzhao, and as at the date of this report still considers them, based on the guidelines set out in Rule 3.13 of the Listing Rules, to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 8 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 19 December 2016, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of the Directors as set forth in the articles of association of the Company.

The independent non-executive Directors have been appointed for a term of three years commencing from 25 November 2016. Each of the independent non-executive Directors is entitled to a fixed director's fee. Their appointments are subject to the termination provisions in the appointment letters and retirement and rotation of the Directors as set forth in the articles of association of the Company.

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

DIRECTORS' REMUNERATION

Directors' remunerations are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) is in force as at the date of this report for the benefit of all Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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 any of the Company's subsidiaries was a party during the year ended 31 December 2016.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, 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 ended 31 December 2016.

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

At 31 December 2016, the interests and short positions of the Directors and chief executive in the share capital and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in Shares:

	Number of Shares held, capacity and nature of interest				
Name of Director	Directly beneficially owned	Through spouse or minor children	Interest in persons acting in concert *(note 1)*	Total	Percentage of the Company's share capital
KE Mingcai	121,449,600	—	218,599,200	340,048,800	47.23%
WANG Songmao	52,056,000	—	287,992,800	340,048,800	47.23%
ZHANG Ayang *(note 2)*	—	340,048,800	—	340,048,800	47.23%
WU Shican	24,300,000	—	315,748,800	340,048,800	47.23%

Notes:

1. Pursuant to an agreement (the "Concert Party Agreement") dated 3 March 2016 and entered into among KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan, they have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of KE Mingcai, WANG Songmao and WU Shican is a party to the Concert Party Agreement, each of KE Mingcai, WANG Songmao and WU Shican is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

2. ZHANG Ayang is the spouse of WU Haiyan and he is deemed to be interested in these Shares under the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

EMOLUMENT POLICY

The Group had 622 employees in Hong Kong and the PRC as at 31 December 2016. The total salaries and related costs granted to employees amounted to approximately RMB 20.8 million for the year ended 31 December 2016.

The Group's remuneration policy, bonus and share option scheme determines benefits of employees (including Directors) based on the duties and performance of each individuals. The Group has also participated in the mandatory provident fund retirement benefit scheme in Hong Kong, and the central pension scheme operated by the local municipal government in the PRC.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme became effective on 19 December 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options permitted to be granted under the Scheme as at the date of this report is an amount equivalent, upon their exercise, to 72,000,000 Shares. The maximum number of Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the Shares in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the Shares in issue at any time or with an aggregate value (based on the price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

The subscription price of a Share in respect of any particular option granted under the Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

At no time during the year were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

		Number of Shares held, capacity and nature of interest				
Name	Notes	Directly beneficially owned	Through a controlled corporation	Interest in persons acting in concert *(note 1)*	Total	Percentage of the Company's share capital
CAI Jinxu		69,393,600	—	270,655,200	340,048,800	47.23%
LIN Qingxiong		41,637,600	—	298,411,200	340,048,800	47.23%
WU Haiyan		31,212,000	—	308,836,800	340,048,800	47.23%
Bliss International Investment Company Limited	(2)	67,500,000	—	—	67,500,000	9.38%
CHEUNG Yung Yung	(2)	—	67,500,000	—	67,500,000	9.38%
Sea Dragon Investments Limited	(3)	64,008,000	—	—	64,008,000	8.89%
WONG Yan Kong	(3)	—	64,008,000	—	64,008,000	8.89%
SO Chi On	(4)	4,000,000	32,800,000	—	36,800,000	5.11%

Notes:

1. Pursuant to the Concert Party Agreement, KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of CAI Jinxu, LIN Qingxiong and WU Haiyan is a party to the Concert Party Agreement, each of CAI Jinxu, LIN Qingxiong and WU Haiyan is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

2. The Shares are held by Bliss International Investment Company Limited, the entire issued share capital of which is wholly owned by CHEUNG Yung Yung.

3. The Shares are held by Sea Dragon Investments Limited, the entire issued share capital of which is wholly owned by WONG Yan Kong.

4. Such information is extracted from the individual substantial shareholder notice of SO Chi On filed on 5 January 2017 as shown on the website of the Stock Exchange, according to which SO Chi On (i) is the beneficial owner of 4,000,000 Shares; and (ii) owned 100% interest in Soul Capital Limited, which in turn is interested in 32,800,000 Shares.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in Shares and underlying shares and debentures" above, who had registered an interest or short position in the Shares or underlying Shares that was required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2016 are set out in note 27 to the consolidated financial statements. The related party transactions summarised therein did not constitute connected transactions or continuing connected transactions as defined Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the total number of Shares were held by the public as at the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 29 to the consolidated financial statements.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the Group's consolidated financial statements for the year ended 31 December 2016 and has met with the auditor of the Company, PricewaterhouseCoopers.

The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company, risk management and internal control systems with senior management members of the Group.

AUDITORS

PricewaterhouseCoopers was appointed as the auditor of the Company for the year ended 31 December 2016. The Company has not changed its auditor since the date of the listing of the Shares on the Stock Exchange and up to the date of this annual report.

PricewaterhouseCoopers will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

KE Mingcai
Chairman

Hong Kong
27 March 2017

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout the period from the date of listing of the Shares to 31 December 2016.

BOARD OF DIRECTORS

Board composition

The Board currently comprises seven Directors, including four executive Directors and three independent non-executive Directors. As at 31 December 2016 and as at the date of this report, the Board comprises the followings Directors:

Executive Directors
Mr. KE Mingcai *(Chairman)*
Mr. WANG Songmao *(Chief executive officer)*
Mr. ZHANG Ayang
Mr. WU Shican

Independent non-executive Directors
Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei
Mr. WANG Yuzhao

Independence of the independent non-executive Directors

The Company has received annual written confirmations from all independent non-executive Directors with regards to their independence, and therefore the Company still consider, based on the guidelines set out in Rule 3.13 of the Listing Rules, that all independent non-executive Directors to be independent.

Board meetings

There were five meetings held by the Board during the year ended 31 December 2016 and all of the five meetings were held before the listing of the Shares on 19 December 2016. The attendance of each Director for the Board meetings held during the year ended 31 December 2016 is set out in the following table:

Directors	Number of Board meetings attended / Number of Board meetings eligible to attend
Executive Directors	
Mr. KE Mingcai	4/5
Mr. WANG Songmao	5/5
Mr. ZHANG Ayang	3/5
Mr. WU Shican	4/5
Independent non-executive Directors	
Mr. LIN Triomphe Zheng	2/4
Mr. SHAO Wanlei	1/4
Mr. WANG Yuzhao	1/4

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ke Mingcai currently serves as the chairman of the Board and Mr. Wang Songmao currently serves as the chief executive officer of the Company. The roles of the chairman and the chief executive officer are separate and exercised by different individuals. Such segregation of two important roles of the Company ensures a clear distinction between the management of the Board and the management of the business operation of the Company.

APPOINTMENT OF DIRECTORS

All Directors are subject to retirement by rotation at least once every three years. In addition, all independent non-executive Directors are appointed for a term of three years.

Roles and responsibilities

The Board is responsible for the leadership and control of the Group, and delegates day-to-day operations to the management team of the Group. The Board provides directions to the management team by laying down strategies and plans, and then oversees the implementation performed by the management team. The Board also timely monitors the Group's operational and financial performance through monthly reports prepared by the management team of the Group.

The Board also review reviews the compensation policies, succession planning, internal control system and risk management system regularly through various committee established under the Board.

Directors' 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 as the Company's code of conduct regarding Directors' securities transactions.

All Directors have confirmed that they have complied with the standards set out in the Model Code throughout the period from the date of listing of the Shares to 31 December 2016.

BOARD COMMITTEES

The Company currently has four committees established under the Board, listed as follows:

- Audit committee
- Remuneration committee
- Nomination committee
- Risk management committee

Audit committee

The audit committee is to serve as a focal point for communication between other Directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, be satisfying themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits.

The audit committee is currently chaired by Mr. LIN Triomphe Zheng and the other members of the audit committee are Mr. SHAO Wanlei and Mr. WANG Yuzhao. All members of the audit committee are independent non-executive Directors.

No audit committee meeting was held during the year ended 31 December 2016 as the audit committee was only established on 25 November 2016 and the functions of the audit committee only became effective upon the successful listing of the Shares on 19 December 2016.

REMUNERATION COMMITTEE

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. In addition, the remuneration committee is also responsible for reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives of the Board.

The remuneration committee is currently chaired by Mr. WANG Yuzhao and the other members of the remuneration committee are Mr. LIN Triomphe Zheng and Mr. SHAO Wanlei. All members of the remuneration committee are independent non-executive Directors.

No remuneration committee meeting was held during the year ended 31 December 2016 as the remuneration committee was only established on 25 November 2016 and the functions of the remuneration committee only became effective upon the successful listing of the Shares on 19 December 2016.

NOMINATION COMMITTEE

The nomination committee is mainly responsible for the followings:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer;
- assessing the independence of independent non-executive Directors; and
- where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, setting out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.

The nomination committee is currently chaired by Mr. SHAO Wanlei and other members of the nomination committee are Mr. KE Mingcai and Mr. WANG Yuzhao. Mr. SHAO Wanlei and Mr. WANG Yuzhao are independent non-executive Directors and Mr. KE Mingcai is an executive Director.

No nomination committee meeting was held during the year ended 31 December 2016 as the nomination committee was only established on 25 November 2016 and the functions of the nomination committee only became effective upon the successful listing of the Shares on 19 December 2016.

RISK MANAGEMENT COMMITTEE

The risk management committee is mainly responsible for the followings:

- considering the Company's risk management strategies;
- considering, reviewing and approving risk management policies and guidelines;
- deciding on risk levels, risk appetite and related resources allocation;
- approving major decisions affecting the Group's risk profile or exposure and giving such directions as it considers appropriate;
- considering the effectiveness of decision making process in crisis and emergency situations; and
- reviewing at least once a year the effectiveness and resources of the internal control systems of the Group.

The risk management committee is currently chaired by Mr. WU Shican and the other members of the nomination committee are Mr. LIN Triomphe Zheng and Mr. ZHANG Ayang. Mr. WU Shican and Mr. ZHANG Ayang are executive Directors and Mr. LIN Triomphe Zheng is an independent non-executive Director.

No risk management committee meeting was held during the year ended 31 December 2016 as the risk management committee was only established on 25 November 2016 and the functions of the risk management committee only became effective upon the successful listing of the Shares on 19 December 2016.

AUDITORS' REMUNERATION

PricewaterhouseCoopers has been appointed as the auditors of the Company in respect of the audit of the financial statements of the Company for the year ended 31 December 2016. In addition, PricewaterhouseCoopers was engaged as the Company's reporting accountants in relation to the initial public offering of the Shares. No non-audit services have been provided by PricewaterhouseCoopers to the Company during the year ended 31 December 2016.

An analysis of the fees paid or payable to PricewaterhouseCoopers in relation to services rendered to the Company for the year ended 31 December 2016 is as follows:

	RMB '000
Audit services	1,300
Non-audit services	—
	1,300

SHAREHOLDERS' RIGHTS

Shareholders can at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of business of Company in Hong Kong at Room Nos. 2413-2415, 24th Floor, Sun Hung Kai Centre, No. 30 Harbour Road, Wan Chai, Hong Kong for the attention of the company secretary of the Company.

In addition, any one or more duly registered holder of the Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CONSTITUTIONAL DOCUMENTS

Upon listing of the Shares and up to 31 December 2016, there is no significant changes in the constitutional documents of the Company.

FINANCIAL REPORTING

Directors' responsibilities

The Directors acknowledges that the Board is responsible for the preparation of the consolidated financial statements of the Group that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Auditors' responsibilities

The reporting responsibilities of the Company's auditors with regards to the consolidated financial statements of the Group are set out on page 47 to 48 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control 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 confirms that it has conducted a review of the risk management and internal control systems of the Group during the year ended 31 December 2016. The Group currently has no internal audit function and such review was performed by an independent third party engaged by the Group. The Board considers that it is more cost effective to engage an independent third party instead of recruiting a team of an internal audit staff to perform such annual review function. The Board will consider to set up an internal audit function in the foreseeable future when the business size of the Group grows larger.

The Board concludes, based on the result of the review, that the risk management and internal control systems currently in place are adequate and effective.

The Board expects that a review of the risk management and internal control systems will be performed annually.

This report elaborates on the Group's concept of sustainable development and social responsibility from environmental and social aspects, mainly covering the Group's two operating subsidiaries, namely Meisen (Shandong) and Dasen (Heze).

Guided by the central tenet of environmental, social and governance sustainability, the Group endeavors to provide safe green plywood and wooden biomass pellets to customers; maintain a desirable working environment where staff safety, health and individual development can be guaranteed; create transparent, environment-friendly supply chain and healthy industry environment; and engage in charitable activities to fulfill corporate social responsibility.

A. ENVIRONMENTAL PROTECTION

The Group strives to realise sustainability of resources, ecology, operation and society in the ordinary course of its business. For that purpose, it has endeavored to apply the best practice in forest utilisation, reduce damage and waste, avoid excessive consumption and over logging, and continually launch clean products to the market. It has been focusing on regulating day-to-day environment management through standard management system. Meisen (Shandong), for example, has set up the ISO 14001 environmental management system and gained certification from an independent third party organisation.

The ISO 14001 Certificate of Meisen

A1 Emissions

The Group has established environmental protection accountability system in accordance with the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and other laws and regulations relating to environmental protection. Measures have accordingly been taken to deal with environmental pollutions caused by operational activities.

The Group has established the Control Procedures of Waste Water, Waste Gases, Noise and Waste Pollution to control pollutants such as wastewater, waste gases, noise and waste caused by production and office activities with the aim to protect the environment and employees' health, and eventually achieve the Group's environmental targets.

- *Waste gases*

  The Group's main waste gases include saw dust, coating waste gas and boilers exhaust gas.

  – Saw dust: the Group has installed gas traps to collect dust and keep them under proper maintenance; has installed ventilation systems in workshops and conducts regular repairs to guarantee normal function. The Group also cleans dust caused by dust treatment facilities and store dusts in designated places for disposal.

  – Coating waste gas: the Group has installed gas traps to collect waste gases produced during coating and hot pressing process and transport them by draft fans into boilers to be burnt.

  – Boiler exhaust gas: the Group has installed cyclone furnaces and bag filters to dispose of boiler gas.

Waste Gas Treatment Facility

- *Effluent*

  The Group's effluent comes from office and residential sources instead of manufacturing process. Wastewater is to be purified by underground sewage treatment plants and discharged into urban sewage pipe network or used for green belts, road watering and dust control.

- *Greenhouse gases*

  The Group's greenhouse gas emissions principally arise from energy indirect emissions of purchased electricity (Scope 2) and energy direct emissions from biomass wood pellets consumption in boilers and gasoline and diesel consumed for transportation (Scope 1). Measures have been adequately taken to reduce greenhouse gas emissions including application of biomass boilers, LED lamp illumination and solar water heaters.

- *Wastes*

  Routine waste treatment of the Group includes waste identification, classification, centralised storage and unified disposal. Waste recycling bins have been distributed in office blocks and production areas and responsible personnel has been designated to handle wastes and tidy areas around the bins. Measures have been properly taken to dispose of solid waste of the following categories:

  – Recyclable solid wastes such as scrap and the like from plywood production process were recycled by category and reused as raw materials of biomass wood pellets or fuels in boilers. Ashes produced in biomass boilers were used as farmland fertilizer.

  – Unrecyclable wastes such as domestic garbage were subject to unified disposal by the department of environment and sanitation.

  – Hazardous wastes such as waste oil and chemical packages were treated by qualified third parties to remove pollutants, making them fit for discharge to the environment.

A2 Use of Resources

In compliance with national and local laws and regulations including the Environmental Protection Law of the PRC, Forest Law of the PRC, Regulations on the Implementation of Forestry Law of the PRC etc., the Group endeavors to establish green production lines covering the whole refining process from raw materials to end-products with the view to maximising resource efficiency. Besides, the Group obtains timber transport certificates according to the Forest Law of the PRC and Regulations on the Implementation of the Forest Law and requires wood suppliers to obtain wood processing licenses from county-level government or above. For wood processing, the Group has designed the Manual Timber Joining Assessment Scheme which factors in length & width, joints, diagonals, etc. to encourage more efficient use of timber and; applied sound techniques such as introducing automatic continuous paving machines to minimise waste and attain greater productivity.

The main sources of energy consumption in operation and business course of the Group are electricity use for production, biomass fuel use in boilers, and gasoline and diesel use for transportation. To conserve energy and mitigate emissions, the Group has replaced raw coal with biomass wood pellets which boast higher calorific value and burning rate to power the boilers, whereby it greatly reduced fossil fuel usage and improved energy efficiency. To regulate boiler operation, the Group has established the Regulations on the Boiler Operation; to boost the mindset of energy conservation and environmental protection among employees, the Group installed LED bulbs in all areas which require illumination, adopted solar water heaters, and put up power conservation slogans etc.

The main sources of water consumption of the Group are water usage in office blocks and residential quarters. The Group has intensified water conservation publicity, put up water conservation slogans, and encouraged staff to use water reasonably. The Group addresses usage of energy (water, electricity, oil etc.) through monthly usage summary, critical control of heavy power consuming equipment and regulation of equipment operating procedures to achieve improvements in energy efficiency.

Electricity conservation notice

Water conservation notice

A3 Environment and Natural Resources

The Group's use of resources mainly results from power, gasoline, diesel and biomass fuel consumption, which has been explained in the paragraph headed A2 "Use of Resources" of this report. No other natural resources are used in great amount by the Group. Thus, this aspect is not applicable to the Group.

B. SOCIAL RESPONSIBILITY

Staff's hard work, fair play and public support underlie the development of the Group. Thus, it is essential to care for its staff, maintain transparent and fair supply chains and reciprocate the society. To this end, the Group has set up a reasonable human resource management system to provide professional development platforms to employees; established a sound supplier inspection and appraisal system; formulated strict standards for finished products, sales and after-sales services, and; intensified its involvement in charitable initiatives as a responsible corporation.

B1 Employment

In strict compliance with the Labor Law of the PRC, the Contract Law of the PRC and other laws and regulations, the Group has established a range of human resources management policies such as the Remuneration Management Policy, Recruitment Process, Regulations on Employment, Dismissal and Transfer Process and the Employee Handbook, with the aim to create healthy and positive working atmosphere and encourage its staff to align personal pursuits with the long-term development of the enterprise.

The Group has set up a fair, cyclical and reasonable remuneration regime where employees are compensated based on the principle of fairness, competitiveness, incentive, and reasonableness and legality. Employees' compensation consists of basic salary, performance salary, overtime pay, position subsidies and other subsidies and bonuses, which will be adjusted annually based on state policies, price level, industrial and geographical differences, the Group's development strategy and overall performance.

To implement the development strategy of "Thriving on talent", the Group has been constantly improving its talent employment and selection policy and standardising the recruitment process. The Group upholds the principle of "Justice, fairness, equality" and "Filling openings with right talent in respect of morality, knowledge, appearance, ability, experience and physical fitness" to draw in the best employees on an ongoing basis.

Workshop and backoffice staff are recruited and managed separately; promotion, transfer, demotion and dismissal procedures are standardised to safeguard the interests of both employees and the Group.

To achieve optimal allocation of human resources, offer more career development opportunities and platforms for employees, improve elimination mechanism and promote sustainable development, the Group has built a talent pool and customises trainings and leadership programs for key trainees. Higher performers will be given priority for promotion.

The Group has protected legitimate rights and interests of laborers, respected employees' entitlements to rest and holidays and regulated working hours in accordance with national and local laws and regulations.

The Group tolerates no discrimination against any employee based on race, gender, color, age, family background, ethnic tradition, religion, physical quality, and national origin, etc., and treats every employee fairly in every aspect such as recruitment, remuneration, training and promotion, as set out in national and local laws and regulations.

The Group prides itself on invariably providing generous employee benefits, a wide variety of activities and warm family atmosphere so that the employees can feel the kindness and care.

2016 Mid-Autumn Festival party

B2 Health and Safety

Subject to laws and regulations including the Labor law of the PRC, the Law of the PRC on Work Safety and the Prevention and Control Law of Occupational Diseases of the PRC, the Group attaches great importance to employees' health and safety, and provides healthy, safe and comfortable working environment. Emphasis has been put on regulating the Group's occupational health and safety management work using standard management system. For example, Meisen (Shandong) has obtained OHSAS 18001 certification from an independent third party and put in place demonstrably sound occupational health and safety performance, where a series of procedures were established, such as the Environment, Occupational Health and Safety Operation Control Procedures, Hazard Identification and Risk Evaluation and Control Procedures and Emergency Preparedness, Response and Control Procedures. Besides, the Production Safety Management Policy and Safety Production Training Management Policy were formulated to serve as production safety guidelines.

Meisen OHSAS 180001 Certificate

The Group adheres to the guidelines of "Safety and prevention first; participation of all staff; integrated control" and the principles of "Involving all staff in safety supervision and management in an all-round and all-weather manner through the entire process". The Group promotes the notion of "Responsibility is weightier than Mount tai" among employees and encourages them to be more responsible and serious about safety. The Group strengthens supervision and management of production safety, specifies production safety responsibilities and observes applicable national laws and regulations with a view to preventing safety accidents and safeguarding employees and state property.

The Group's risk control and management measures includes the identification and assessment of major sources of hazards that have negative impacts on the health and safety of employees and customers, the results of which can support decision making in target and indicator setting and hazard prevention. Events such as trainings, emergency drills are arranged to sharpen employees' ability of quickly responding to emergencies arising from production and experiments, thus minimising personal injuries, property losses and adverse impact on the environment.

The Group creates favorable working environment and safe production conditions in conformity to laws and regulations. The Group reinforces equipment and facility check to ensure normal function; distributes personal protective equipment; and provides employees with guidance on necessary production safety knowledge, production safety rules and operating procedures, and safety techniques of different posts. Special operation staff are required to attend specialised safety trainings and obtain special operation certificates; workshop staff are required to attend the three-level safety trainings, pass the examinations and claim personal protective equipment prior to job performing.

In order to prevent occupational diseases and injuries, the Group helps employees understand occupational hazards that may arise from production activities, potential consequences and protective measures. On top of that, the Group provides occupational health tests for employees and retain staff occupational health records.

Fire training

The Group has designed fire control system for production plant construction following national firefighting technical standards for construction fire control and formulated the fire control system. The Group also performs regular firefighting trainings and emergency drills for its employees.

B3 Development and Training

The Group puts great premium on the establishment of internal training and development management system. The Group provides diversified trainings such as orientation, management personnel training, technical personnel training and pre-job training to meet needs of employees of various types and levels so as to improve their skills and promote the Group's sustainable development. The Group also established the Human Resources Management Procedures to regulate employee training management.

The Group's trainings fall into two categories, being external trainings and internal trainings, which are arranged according to annual training plans and recorded in written manner. Internal trainings include various training courses (workshops, lectures, etc.), visits, business coaching, handouts, knowledge contests, written examinations, newspapers and magazines, field exercises and self-teaching. External trainings include inviting colleges and universities, research & development institutions, government agencies and industry administration to offer seminars.

New recruits receive orientations which enable them to adapt to the working environment and better perform duties. Trainings are also available for workshop technical personnel, environment and safety management personnel, quality inspectors and other personnel occupying key positions.


New employee orientation


Management personnel training


Stitching workshop skills training


Hot pressing workshop skills training


Sanding workshop skills training


Stitching skills training

B4 Labor Standards

In strict compliance with the Labor Contract Law of the PRC, Labor law of the PRC and Provisions on Prohibition of Child Labor, the Group tolerates no child labor or forced labor and makes it clear in the recruitment brochure that only those aged over 18 years old are considered legitimate candidates. It ensures that no child is recruited by checking candidates' ID cards. Besides, the Group adopts 40-hour working hour system and voluntary overtime work mechanism to avoid violation of labor standards, thus safeguarding employees' rights and interests.

B5 Supply Chain Management

According to the Forestry Law of the PRC and the Regulations on the Implementation of Forest Law of the PRC, the Group maintains a strict and standard procurement system and supplier selection process on the one hand, and requires suppliers to control environmental and social risks on the other. To determine which suppliers should be included in the Qualified Supplier List, the Group looks into supplier's production and technical competency, independent production capacity, product cycles and applicable industrial standards, fills out the Supplier Information Sheet, and screens suppliers using the Supplier Checklist.

Meisen (Shandong) has formulated the Procurement Control Procedures and Material Supplier Agreement regarding Environmental Issues etc., to control product procurement, validation, identification, handling, storage and custody, so as to ensure compliance in respect of performance, quality, occupational health and safety, and environmental protection.

The Group signs the Material Supplier Agreement regarding Environmental Issues with suppliers under the principle of "Reciprocity and mutual benefit, common development, environmental protection and benefiting the mankind", which stipulates that products of and raw materials used by the suppliers shall meet environmental protection requirements set out in national and local laws and regulations as well as industrial standards, and encourages the usage of clean production process and equipment. In case any supplier fails to meet standards when discharging pollutants (waste water, waste gases, solid waste, noise, etc.) during the production, the Group will require such supplier to take corrective measures, set up signs warning about dangerous items and hazardous waste storage, and use recyclable packaging materials to avoid waste of resources. For suppliers who are likely to cause or have caused serious harm or major environmental pollution, the Group will terminate the supply contract.

The Group takes the following measures to ensure legal sources of poplar wood, poplar plywood, and veneer:

– For rural citizens, cutting license is not necessary for the cutting of the isolated trees in their private farm plots and surrounding their houses, as set out in the Forest Law of the PRC. The Group will perform on-site inspection on these suppliers to confirm legitimate tree logging;

– For corporate suppliers, the Company will check relevant licenses (business license, wood processing business license etc.), and carry out on-site inspection to evaluate supplier credit and reputation.

B6 Product Responsibility

The Group complies with the Product Quality Law of the PRC, Law of the PRC on the Protection of the Rights and Interests of Consumers, Advertisement Law of the PRC and other laws and regulations, and attaches importance to product quality and the health of consumers.

- *Green products*

The biomass wood pellet is a green fuel made from agriculture and forestry residues (commonly known as "the three residues") through crushing, drying and granulating process. Compared with traditional fuels such as the coal, the biomass wood pellet is a solid fuel which is smaller, sealable, easier to transport and store, and thus more economical for the Group. No air polluting gases will be produced from the combustion of biomass wood pellets as they contains no sulfur or phosphorus in contrast with traditional fuels such as the natural gas, oil, and electricity, thus effectively mitigating greenhouse gas emissions. In a word, the biomass wood pellet has advantages in respect of transportation, storage, heat value and emission reduction.

- *Product quality*

To implement strict quality control, the Group has introduced the ISO 9001 quality management system and established a comprehensive quality control system. Meisen (Shandong), for example, has obtained quality management system certification from an independent third party. On top of that, the Group established quality management policies including Quality Management Policies, Production Process Quality and Safety Control Policy, Tracing Management Policy, Product Inspection Control Procedure and Product Batch Sampling and Inspection Management Process.

Meisen (Shandong) conducts inspection over purchased products, processed products and finished products; uninspected or defective products are not allowed to be processed, transferred, stored or delivered.

Meisen ISO 9001 Certificate

- *Raw materials testing*

The Group selects suppliers based on quality, delivery and cost. The Group has in-house testing facilities, testing equipment and technical professionals to test raw materials. All procured products should be tested as per related regulations before being accepted into the plants; uninspected or defective products shall not be put into use.

- *Testing on work-in-progress*

Measures are taken to control quality for all phases of product development. Quality control staff perform sampling tests on production lines to ensure that quality criteria are met. Tests include pressure rating, thickness measurement, formaldehyde emissions test and surface quality test. Besides, the Group performs tests at inspection points on production lines as stipulated in the Quality Inspection Standards and fills out the test log. Defective products shall be removed from the plants and stored separately by category for further disposal. The Group appropriately retains test logs and makes monthly summary and analysis followed by corrective and preventive measures, so as to better implement process control.

- *Finished goods testing*

Inspectors is responsible for testing products according to the Quality Inspection Standards and preparing the Product Quality Report; workshop staff are responsible for the acceptance of qualified products according to the Product Quality Report and dealing with defective products as per the Control Procedures for Defective Products.

As required by the regulations of California Air Resources Board ("CARB"), the Group's plywood products first obtained the certificate of "solid wood veneer core formaldehyde release quantity standard: the second stage (0.05 PPM)," which was issued in March 2014. The Group also engaged independent inspection institutions to test its biomass wood pellets for compliance with relevant industry standards.

CARB Certification

- *Customer service*

  The Group provides customers with good consumer experience through standard, human-oriented and well-managed services. In accordance with the Group's Contract Review Policy, Customer Credit Evaluation Policy and other policies, customers' complaints are received by the sales department, and then confirmed and solved by the salesmen. The sales department is also responsible for following up customers' feedback as a way to improve customer satisfaction. Annual customer satisfaction survey is performed to collect customer feedback.

  The Group keeps customer files under close custody to avoid privacy leakage and asks relevant personnel to sign confidentiality provisions at time of recruitment to safeguard business secrets.

  The Group engages professional advertisers in the design of product display booth, packaging advertisement and publicity brochures etc., and checks slogans and advertisement lines to avoid false or misleading promotion.

B7 Anti-corruption

The Group pays high attention to anti-corruption. The Group strictly complies with Company Law of the PRC, the Law of the PRC on Tenders and Bids, the Anti-Unfair Competition Law of the PRC, the Interim Provisions on Banning Commercial Bribery, and Anti-Money Laundering Law of the PRC. It endeavors to create an anti-corruption culture and promote transparency by promoting the code of conduct of integrity and anti-commercial bribery, and arranging related educative events for senior management and division directors.

The Group tolerates no corruption or bribery in any form. Once found and confirmed, the Group will impose heavy punishment. According to employee handbook of the Group, anyone who takes advantage of his/her position to engage in fraud, embezzlement and bribe-taking will be subject to judiciary proceedings.

B8 Community Investment

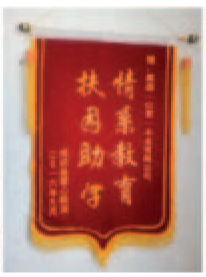
Upholding the commitment of "Leading the industry, benefitting the employees, contributing to the society, achieving harmony and win-win", the Group strives to promote social development and progress by contributing to environment, education, community investment and other areas. The Group cooperates intensively with charitable organisations, and organises social activities for public benefit and charity so as to build up good public image and fulfill social responsibilities. To strengthen philanthropy and donation management, the Group has developed the Temporary Provisions of Philanthropy according to the articles of association of Meisen (Shandong) and Dasen (Heze), Company Law of the PRC and other related laws and regulations.

- *Promote local employment*

  The Group promotes local employment by constantly creating jobs for local workers. According to the Group's data, the localization rate of Meisen (Shandong) and Dasen (Heze) employees stands at 89% and 84%, respectively.

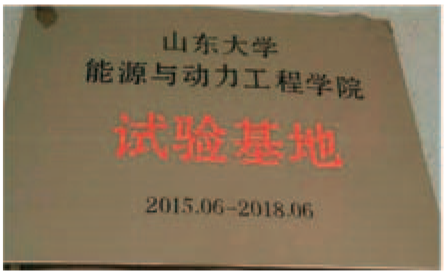
- *Support poverty*

  The Group devotes itself to helping poor students where the Group is located. Meisen (Shandong) held a donation ceremony on 24th January 2016 when it offered grants to 10 poor students and useful items to other 10 students from Sunsi Kindergarten, Development Zone Chuansheng Primary School and Experimental Middle School etc.

- *University-enterprise cooperation*

  Dasen (Heze) and Shandong University signed an agreement on a one-year project of biomass physical properties testing, analysis and research, wherein Dasen (Heze) agreed to provide samples, basic data, research funds and other working conditions to support Shandong University in experimental research. Besides, the Group funded the establishment of the laboratory of Energy and Power Engineering School of Shandong University and key laboratory of energy carbon reduction technology and resource utilisation of Shandong Province to improve scientific research ability and promote technology innovation.



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羅兵咸永道

To the Shareholders of Da Sen Holdings Group Limited
(incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 49 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- 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 statement of cash flows 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 International Standards on Auditing ("ISAs"). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA 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 year. 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 matters identified in our audit are summarised as follows:

- Revenue recognition – sales of products
- Recoverability of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition – sales of products *Refer to Note 2.21 (Summary of significant accounting policies) and Note 5 (Revenue and segment information) of the consolidated financial statements.* For the year ended 31 December 2016, the Group recognised revenue of RMB466,118,000 from the sale of plywood and biomass wood pellets. Revenue is recognised when the amount and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers. We focused on this area due to the large volume of revenue transactions to a lot of customers.	We understood, evaluated and tested management's key controls within sales process, including sales order's approval, goods delivery, sales recording, all the way through to reconciliations with cash receipts and subsequent settlements of trade receivables. We tested revenue recorded on sample basis covering different locations and customers, by examining the relevant supporting documents including sales contracts, goods delivery notes and sales invoices. We sent requests to selected customers to confirm the receivable balances as at 31 December 2016 and the amounts of sales transactions occurred during the year. The customers were selected by considering the amounts of transactions and balances, as well as nature and characteristics of customers. We tested sales transactions that took place shortly before and after the balance sheet date, by reconciling goods delivery notes to recognised revenue to assess whether revenue was recognised in the correct reporting periods. Based on our work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables *Refer to Note 4(b) (Critical accounting estimates and judgements) and Note 17 (Trade and other receivables) of the consolidated financial statements.* As at 31 December 2016, the Group's trade receivables amounted to RMB 128,621,000, and a provision for impairment of RMB 2,692,000 was made. The recoverability of significant receivables was assessed on an individual basis based on management's estimates of the future cash flows. Trade receivable balances without objective evidence of impairment were grouped based on their ageing profile and customers' credit condition for collective evaluation. The collective impairment provision was determined by management based on historical loss experience, taking into considerations of current circumstances. We focused on this area due to the magnitude of the trade receivables balance, and the significance of management's judgements and estimation applied in assessing the recoverability of such balances.	We assessed management's identification of individually impaired trade receivables by enquiry of mangement and sales personnel and performing independent research of customer background. We tested the grouping of the trade receivables on sample basis by checking the supporting documents including sales invoices, customer information profile and the subsequent settlements. We assessed management's estimation of collective provision by considering the historical loss experience, the ageing profile, customers' credit condition, and other evidences including, inter alie, confirmations from customers and subsequent settlements. Based on our work performed, we found that management's judgements made in assessing the recoverability of trade receivables were supported by the evidence we gathered.

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 IFRSs 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 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 ISAs 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 ISAs, 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.

We communicate with 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 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 Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period 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 Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	5	466,118	380,860
Cost of sales	6	(359,969)	(297,370)
Gross profit		106,149	83,490
Selling and distribution expenses	6	(933)	(2,946)
Administrative expenses	6	(34,584)	(20,575)
Other income	7	9,217	7,304
Other losses	8	(93)	(178)
Operating profit		79,756	67,095
Finance income	10	5	1
Finance expenses	10	(4,499)	(5,428)
Finance expenses – net	10	(4,494)	(5,427)
Profit before income tax		75,262	61,668
Income tax expense	11	(22,031)	(16,446)
Profit after tax		53,231	45,222
Comprehensive income		—	—
Total comprehensive income for the year and attributable to the shareholders		53,231	45,222
Earnings per share for profit attributable to the shareholders during the year (expressed in RMB cents per share)			
– Basic and diluted	12	9.74	8.37

The notes on pages 54 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Land use rights	14	23,300	23,807
Property, plant and equipment	15	99,813	104,877
Deferred income tax assets	24	1,071	1,971
		124,184	130,655
Current assets			
Inventories	16	46,581	34,523
Trade and other receivables	17	128,148	61,690
Cash and cash equivalents	18	127,690	9,006
		302,419	105,219
Total assets		426,603	235,874
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	6,393	—
Share premium	19	95,750	—
Capital and other reserves	20	45,126	38,632
Retained earnings		144,518	97,781
Total equity		291,787	136,413
Liabilities			
Non-current liabilities			
Borrowings	21	—	1,023
Deferred income	23	417	440
Deferred income tax liabilities	24	—	112
		417	1,575

	Note	2016 RMB'000	2015 RMB'000
Current liabilities			
Trade and other payables	22	**29,905**	32,708
Current income tax liabilities		**19,471**	15,389
Borrowings	21	**85,023**	49,789
		134,399	97,886
Total liabilities		**134,816**	99,461
Total equity and liabilities		**426,603**	235,874

The notes on pages 54 to 107 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 49 to 107 were approved by the Board of Directors on 27 March, 2017 and were signed on its behalf.

KE Mingcai
Director

WANG Songmao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Equity attributable to the Shareholders				
	Share capital (Note 19) RMB'000	Share Premium (Note 19) RMB'000	Capital and other reserves (Note 20) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2015	—	—	30,397	57,484	87,881
Total comprehensive income					
Profit for the year	—	—	—	45,222	45,222
Transactions with owners					
Capital contribution from the then equity holders of the subsidiaries comprising the Group	—	—	3,310	—	3,310
Profit appropriation to statutory reserves	—	—	4,925	(4,925)	—
Total transactions with owners	—	—	8,235	(4,925)	3,310
Balance at 31 December 2015	—	—	38,632	97,781	136,413
Total comprehensive income					
Profit for the year	—	—	—	53,231	53,231
Transactions with owners					
Issue of new shares upon initial public offering	1,598	100,545	—	—	102,143
Capitalisation issue	4,795	(4,795)	—	—	—
Profit appropriation to statutory reserves	—	—	6,494	(6,494)	—
Total transactions with owners	6,393	95,750	6,494	(6,494)	102,143
Balance at 31 December 2016	6,393	95,750	45,126	144,518	291,787

The notes on pages 54 to 107 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	25	**3,068**	117,892
Interest received		**5**	1
Interest paid		**(4,108)**	(4,592)
Income tax paid		**(17,161)**	(12,059)
Net cash (used in)/generated from operating activities		**(18,196)**	101,242
Cash flows from investing activities			
Purchases of property, plant and equipment		**(4,324)**	(25,031)
Net cash used in investing activities		**(4,324)**	(25,031)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		**103,204**	—
Proceeds from borrowings		**94,000**	23,000
Repayments of borrowings		**(56,000)**	(42,000)
Proceeds from borrowing from a shareholder		**155,115**	17,858
Repayments of borrowing from a shareholder		**(155,115)**	(71,071)
Initial public offering costs		**—**	(1,061)
Capital contribution from the then equity holders of the subsidiaries comprising the Group		**—**	3,310
Net cash generated from/(used in) financing activities		**141,204**	(69,964)
Net increase in cash and cash equivalents		**118,684**	6,247
Cash and cash equivalents at beginning of year	18	**9,006**	2,759
Cash and cash equivalents at end of year	18	**127,690**	9,006

The notes on pages 54 to 107 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Da Sen Holdings Group Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the manufacturing and sales of plywood and biomass wood pellets in Heze City, Shandong Province, the People's Republic of China (the "PRC").

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company completed its listing and initial public offering on 19 December 216 and its shares have been listed on The Stock Exchange of Hong Kong Limited since 19 December 2016.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 27 March 2017.

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 of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures

(a) New amendments of IFRSs adopted by the Group in 2016

The following new amendments of IFRSs which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2016.

- Annual improvements 2014 include changes from the 2012 – 2014 cycle of the annual improvements project that effective for annual periods beginning on or after 1 January 2016:

  – Amendment to IFRS 7 'Financial instruments: Disclosures' clarifies that the additional disclosure required by the amendments to IFRS 7 "Disclosure – Offsetting financial assets and financial liabilities" is not specifically required for all interim periods, unless required by IAS 34.

  – Amendment to IAS 34 'Interim financial reporting' clarifies that what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. It also amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(a) New amendments of IFRSs adopted by the Group in 2016 – *continued*

The following new standards and amendments are effective for the first time for the financial year beginning on 1 January 2016 and not relevant to the Group' s operations (although they may affect the accounting for future transactions and events).

Standards and amendments	Effective for annual periods beginning on or after
Annual improvements 2014: IFRS 5 'Non-current assets held for sale and discontinued operations'	1 January 2016
IFRS 14 'Regulatory Deferral Accounts'	1 January 2016
Amendment to HKFRS 11 'Accounting for acquisitions of interests in joint operations'	1 January 2016
Amendments to IAS 16 and IAS 38 'Clarification of acceptable methods of depreciation and amortisation'	1 January 2016
Amendments to IAS 16 and IAS 41 'Agriculture: bearer plants'	1 January 2016
Annual improvements 2014: IAS 19，'Employee benefits'	1 January 2016
Amendment to IAS 27 'Equity method in separate financial statements'	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment entities: applying the consolidation exception'	1 January 2016
Annual improvements 2014: IFRS 7, 'Financial instruments: Disclosures' - Application of the disclosure requirements to a servicing contract	1 January 2016
Amendments to IAS 1 'Disclosure initiative'	1 January 2016

The adoption of the above new amendments of IFRSs starting from 1 January 2016 did not give rise to any significant impact on the Group' s results of operations and financial position for the year ended 31 December 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(b) New standards and amendments of IFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group

- Amendments to IAS 12, 'Income taxes' on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017.

- Amendments to IAS 7 – Statement of cash flows introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The amendment is effective for annual periods beginning on or after 1 January 2017.

- IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control.

  IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  IFRS 15 replaces the previous revenue standards: IAS 18 'Revenue' and IAS 11 'Construction Contracts', and the related Interpretations on revenue recognition: IFRIC 13 Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue - Barter Transactions Involving Advertising Services'. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(b) New standards and amendments of IFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group – *continued*

- IFRS 9 'Financial Instruments' replaces the whole of IAS 39. IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

  IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivable this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

  IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more 'rule-based' approach of IAS39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(b) New standards and amendments of IFRSs which have been issued and are relevant to the Group's operations and effective for the financial year beginning after 1 January 2016 and have not been early adopted by the Group – *continued*

- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' clarify the measurement basis for cash-settled share-based payments and the accounting for modification from cash-settled awards to equity-settled awards. It also introduces an exception to the principles in IFRS 2 that requires an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. IFRS 2 is effective for annual periods beginning on or after 1 January 2018.

- IFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases', and related interpretations. IFRS 16 is effective for annual periods beginning on or after 1 January 2019.

- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture' address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The effective date of IFRS 10 and IAS 28 has now been deferred.

The Group will apply the new standards and amendments described above when they become effective. The Group is in the process of making an assessment on the impact of these new standards and amendments and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) 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 over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group' s accounting policies.

(i) Business combinations under common control ("BCUCC")

The Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. Transaction-related costs are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Subsidiaries – *continued*

2.2.1 Consolidation – continued

(ii) Business combinations under non-common control

Except for BCUCC, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

2.2.2 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 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 and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.4 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'). The consolidated financial statements are presented in RMB, which is the functional currency of the entities in the Group and the Company's and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'Other losses – net'.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. 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 statements of comprehensive income during the financial year in which they are incurred.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Property, plant and equipment – *continued*

— Plant	30 years
— Machinery	10-15 years
— Vehicles	5 years
— Furniture, fittings and equipment	5 years

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 (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses – net' in the consolidated statements of comprehensive income.

2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortised over the useful terms of 50 years using the straight-line method.

2.7 Impairment of non-financial assets

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 of disposal 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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 assets. The Group's loans and receivables comprise "Trade and other receivables" and 'Cash and cash equivalents' in the consolidated balance sheets (Notes 2.12 and 2.13).

2.8.2 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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. 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.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention consolidated to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or 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 statements of comprehensive income. 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 statements of comprehensive income.

2.11 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 excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.12 Trade and other receivables

Trade receivables are amounts due from customers for products sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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

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

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 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 within "Administrative expenses".

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.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.14 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.

2.15 Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income 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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense and finance charges in respect of finance lease.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.18 Current and deferred income tax – *continued*

(b) Deferred income tax

Inside basis differences

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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. 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 periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.20 Government grants

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

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

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related asset.

2.21 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. 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. The Group bases its estimates of return on historical results, taking into consideration of the type of customers, the type of transactions and the specifics of each arrangement.

Sales of products

Revenue from the sales and distribution of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Interest income

Interest income is recognised using the effective interest method. When a loan and 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.

2.23 Leases

Operating 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 statements of comprehensive income on a straight-line basis over the period of the lease.

Finance leases

The Group leases certain machineries where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.24 Research and development

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

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

(f) the expenditure attributable to the intangible asset 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 are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.25 Dividend distribution

Dividend distribution to the Company's shareholder 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 shareholder or directors, where appropriate.

2.26 Dividend income

Dividend income is recognised when the right to receive payment is established.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow 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.

(a) Market risk

(i) Foreign exchange risk

The Directors do not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used and derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2016.

In December 2016, the Group received proceeds, denominated in HK$ from the listing of shares of the Company. The proceeds will be used for the expansion of the Group in the PRC. In view of the anticipated continuing depreciation in RMB against HK$, the Group manages foreign exchange risk arising from listing proceeds by remitting the necessary funds to PRC and exchanging into RMB, while retaining the remaining proceeds in HK$ in Hong Kong.

The exposures to the foreign exchange risks are disclosed in Note 18, the cash and cash equivalent of the Group.

At 31 December 2016, if RMB had weakened/strengthened by 10% against the US$ and HK$ (pegged with US$) with all other variables held constant, the net profit for the year would have been RMB 8,577,000 higher/lower (2015: RMB 2,100 higher/lower), mainly as a result of foreign exchange losses/gains on translation of US$ and HK$ denominated cash and cash equivalents.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(a) Market riskk – continued

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 18), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

As at 31 December 2016, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, the net profit for the years ended 31 December 2016 would have been decreased/increased by approximately RMB 325,000 (2015: RMB 344,000).

(b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(c) *Liquidity risk*

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

The table below analyses the Group's non-derivative 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.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Total RMB'000
At 31 December 2016			
Borrowings	85,023	—	85,023
Interest payables for borrowings	1,323	—	1,323
Trade and other payables	17,479	—	17,479
	103,825	—	103,825
At 31 December 2015			
Borrowings	49,789	1,023	50,812
Interest payables for borrowings	2,121	21	2,142
Trade and other payables	15,486	—	15,486
	67,396	1,044	68,440

3 FINANCIAL RISK MANAGEMENT – *continued*

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 to 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 the bank borrowings and dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheets) plus amount due to a shareholder. Total equity is 'equity' as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total borrowings (Note 21)	**85,023**	50,812
Total debt	**85,023**	50,812
Total equity	**291,787**	136,413
Gearing ratio	**29%**	37%

The decrease in gearing ratio during the year is resulted primarily from the increase in total equity due to the funds from initial public offerings and the net profit derived during the year ended 31 December 2016.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation

The Group adopts the amendment to IFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2016, the Group had no financial instruments that are measured in the consolidated balance sheets at fair value.

The carrying amounts of the Group' s financial assets, including trade and other receivables, cash and cash equivalents, and short term liabilities, including trade and other payables and borrowings are assumed to approximate their fair values due to their short-term maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(b) Allowances for doubtful receivables

The Group's management reviews its receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management has made judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The carrying amounts of the Group's trade and other receivables are disclosed in Note 17. Management is of the view that the allowance for doubtful receives is adequately recorded as of 31 December 2016.

(c) Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

5 REVENUE AND SEGMENT INFORMATION

The executive directors are the Group's chief operating decision-maker. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The executive directors have determined the operating segments based on these reports. The executive directors consider the business from products and services perspective, and determine that the Group has the following operating segments:

(i) Manufacturing and sales of plywood;

(ii) Manufacturing and sales of biomass wood pellets fuel.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The executive directors assess the performance of the business segments based on profit before income tax without allocation of finance costs, which is consistent with that in the consolidated financial statements.

No revenue was derived from a single external customer that exceeded 10% of the total revenue of the Group for the years ended 31 December 2016 and 2015.

Segment assets consist of land use rights, property, plant and equipment, deferred tax assets, inventories, trade and other receivables and cash and cash equivalents.

Segment liabilities consist of borrowings, deferred income, deferred tax liabilities, trade and other payables and other current tax liabilities.

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2016

The segment information for the year ended 31 December 2016 is as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Unallocated RMB'000	Group RMB'000
Segment result					
Revenue	363,685	109,115	(6,682)	—	466,118
Segment results	65,215	24,930	—	(10,389)	79,756
Finance expenses - net (Note 10)					(4,494)
Profit before income tax					75,262
Income tax expense (Note 11)					(22,031)
Profit for the year					53,231
Other segment items					
Depreciation (Note 15)	3,392	1,814	—	—	5,206
Amortisation of land use rights (Note 14)	290	217	—	—	507

The segment assets and liabilities at 31 December 2016 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Segment and total assets	273,877	101,329	51,397	426,603
Segment and total liabilities	87,768	34,634	12,414	134,816

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2015

The segment information for the year ended 31 December 2015 is as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Unallocated RMB'000	Group RMB'000
Segment result					
Revenue	284,204	102,126	(5,470)	—	380,860
Segment results	45,615	25,167	21	(3,708)	67,095
Finance expenses - net (Note 10)					(5,427)
Profit before income tax					61,668
Income tax expense (Note 11)					(16,446)
Profit for the year					45,222
Other segment items					
Depreciation (Note 15)	3,562	1,804	—	—	5,366
Amortisation of land use rights (Note 14)	289	217	—	—	506

The segment assets and liabilities at 31 December 2015 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Segment and total assets	160,560	74,847	467	235,874
Segment and total liabilities	78,826	18,438	2,197	99,461

6 EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in inventories of finished goods and work-in-progress	(11,043)	(6,668)
Raw materials and consumables used	341,735	273,823
Employee benefit expenses (Note 9)	20,811	21,511
Depreciation and amortisation (Notes 14 and 15)	5,713	5,872
Transportation expenses	–	2,122
Taxes and levies	3,780	3,211
Utilities	5,460	4,929
Research and development expenses	6,928	4,467
Provision for receivables impairment (Note 17)	2,692	–
Audit remuneration		
– Audit service	1,300	359
Professional fees in respect of the initial public offering	13,194	7,522
Other expenses	4,916	3,743
	395,486	320,891

7 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of plywood core	1,923	1,399
Refund of value added tax("VAT")(Note)	6,800	5,877
Foreign exchange gain	25	–
Amortisation of deferred income related to government grants (Note 23)	23	28
Others	446	–
	9,217	7,304

Note: Pursuant to the approval by the Economic and Information Technology Committee of Shandong Province, the subsidiary of the Group in the manufacture of biomass wood pellets was entitled to VAT refund of its sales of its products which involves comprehensive utilisation of resources for years ended 31 December 2016 and 2015.

8 OTHER LOSSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Foreign exchange loss	–	75
Others	**93**	103
	93	178

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries, wages and bonuses	**20,335**	18,234
Pension, housing fund, medical insurance and other social insurance	**476**	3,277
Total employee benefit expenses	**20,811**	21,511

(a) Pension costs – defined contribution plans

The employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

9 EMPLOYEE BENEFIT EXPENSES – *continued*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are all senior management and included four directors during the year, whose emoluments are reflected in the analysis shown in Note 31. The emoluments paid to the remaining individual during the year were as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and bonus	**882**	292
Pension, housing fund, medical insurance and other benefits	**16**	6
	898	298

The number of highest paid non-director individuals, whose remuneration for the year fell within the following bands:

	Year ended 31 December	
	2016	2015
Emolument band (in HK$)		
Nil to HK$ 1,000,000	**1**	1

During the year, no emoluments have been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE EXPENSES – NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Financial expenses:		
– Interest expense on borrowings from banks	**4,108**	4,592
– Interest expense on finance leases	**391**	836
	4,499	5,428
Finance income:		
– Interest income on bank deposits	**(5)**	(1)
Finance expenses - net	**4,494**	5,427

11 INCOME TAX EXPENSE

PRC profits tax has been provided at the rate of 25% on the estimated assessable profit for the year.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	**21,243**	16,750
Deferred income tax (Note 24)	**788**	(304)
Total income tax	**22,031**	16,446

(i) Cayman Islands profit tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) British Virgin Islands profits tax

The Company's subsidiary in the British Virgin Islands ("BVI") is exempted from BVI income tax, as it is incorporated under the International Business Companies Act of the BVI.

(iii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% (2015: 16.5%) for the year.

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

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% (2015: 25%) for the year.

(v) PRC withholding income tax

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided (Note 24) as the directors have confirmed that the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 31 December 2016 in the foreseeable future.

11 INCOME TAX EXPENSE – *continued*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**75,262**	61,668
Tax calculated at domestic tax rates applicable to profits in the respective year	**18,816**	15,417
Tax effects of:		
– Expenses not deductible for tax purpose	**2,883**	974
– Tax losses for which the deferred income tax asset was not recognised	**332**	55
Tax charge	**22,031**	16,446

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the years ended 31 December 2016 and 2015 is calculated by dividing the profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit attributable to the shareholders	**53,231**	45,222
Weighted average number of ordinary shares in issue (thousands)	**546,393**	540,000
Basic earnings per share (RMB cents per share)	**9.74**	8.37

In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2016 and 2015, a capitalisation of 539,980,000 shares by debiting the share premium account on 19 December 2016 was treated as if these shares had been in issue since 1 January 2015.

12 EARNINGS PER SHARE – *continued*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the years ended 31 December 2016 and 2015, the diluted earnings per share is equal to basic earnings per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

13 SUBSIDIARIES

The following is a list of the subsidiaries of the Company at 31 December 2016:

Company name	Place of incorporation/ operation	Issued and paid capital	Principal activities
Directly held:			
Heroic Group Limited 雄英集團有限公司	BVI, limited liability company	US$ 50,000	Investment holding
Indirectly held:			
Mei Sem (Hong Kong) Holding Co., Limited 美森(香港)控股有限公司	Hong Kong, limited liability company	HK$ 10,000	Investment holding
Dasen (Hong Kong) Holdings Company Limited 大森(香港)控股有限公司	Hong Kong, limited liability company	HK$ 10,000	Investment holding
Meisen (Shandong) Wood Limited 美森(山東)木業有限公司	PRC, limited liability company	RMB 16,887,140	Manufacturing and sales of plywood
Dasen (Heze) Biomass Energy Limited 大森(菏澤)生物質能源有限公司	PRC, limited liability company	US$ 3,000,000	Manufacturing and sales of biomass wood pellets fuel

14 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	23,807	24,313
Amortisation	(507)	(506)
At end of year	23,300	23,807

The land use rights are held under medium-term leases with lease term of 50 years and the land is situated in Heze City, Shandong province, the PRC.

As at 31 December 2016, land use rights of the Group with a total net book value of RMB 23,300,000 (2015: RMB 23,807,000), were pledged to secure short-term borrowings as disclosed in Note 21.

15 PROPERTY, PLANT AND EQUIPMENT

	Plant RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Total RMB'000
Year ended 31 December 2015					
Opening net book amount	77,847	31,191	419	598	110,055
Additions	—	13	50	125	188
Depreciation charge	(2,627)	(2,367)	(200)	(172)	(5,366)
Closing net book amount	75,220	28,837	269	551	104,877
At 31 December 2015					
Cost	83,510	34,760	1,011	1,010	120,291
Accumulated depreciation	(7,729)	(5,923)	(742)	(459)	(14,853)
Provision for impairment loss	(561)	—	—	—	(561)
Net book amount	75,220	28,837	269	551	104,877
Year ended 31 December 2016					
Opening net book amount	75,220	28,837	269	551	104,877
Additions	105	—	—	37	142
Depreciation charge	(2,639)	(2,273)	(126)	(168)	(5,206)
Closing net book amount	72,686	26,564	143	420	99,813
At 31 December 2016					
Cost	83,615	34,760	1,011	1,047	120,433
Accumulated depreciation	(10,368)	(8,196)	(868)	(627)	(20,059)
Provision for impairment loss	(561)	—	—	—	(561)
Net book amount	72,686	26,564	143	420	99,813

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

During the year, the amounts of depreciation expense charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of sales	4,483	4,572
Administrative expenses	723	794
	5,206	5,366

As at 31 December 2016, plants of the Group with a total net book value of RMB 58,321,000 (2015: RMB 60,435,000), were pledged to secure short-term bank borrowings as disclosed in Note 21.

The Group leases various machineries under non-cancellable finance lease agreement. The lease terms are 3 years, and ownership of the assets will be transferred to the Group after the lease term. Production machinery and equipment includes the following amounts where the Group is a lessee under finance leases:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost-capitalised in finance lease	14,855	14,855
Accumulated depreciation	(2,539)	(1,611)
Net book amount	12,316	13,244

As at 31 December 2016, plants of the Group with a total net book value of RMB 1,503,000 (2015: RMB 1,559,000), were without real estate titles and they are under the process of getting the real estate certificates.

16 INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials	12,590	11,593
Work-in-progress	13,437	9,750
Finished goods	20,554	13,180
	46,581	34,523

During the years ended 31 December 2016, the cost of inventories recognised as an expense and included in "cost of sales" was RMB 330,692,000 (2015: RMB 267,155,000).

17 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	128,621	58,917
Less: Allowance for impairment of receivables	(2,692)	—
Trade receivables – net	125,929	58,917
Prepayments		
– Prepayments for raw materials	1,141	1,680
– Prepayments for initial public offering	—	1,061
Other receivables	1,078	32
	128,148	61,690

The Group has a large number of customers, mainly in Fujian Province, Guangdong Province and Zhejiang Province. There is no concentration of credit risk with respect to trade receivables. Majority of the Group's sales are with credit terms. Major customers with good repayment history are normally offered credit terms of no more than six months.

17 TRADE AND OTHER RECEIVABLES – *continued*

As at 31 December 2016 and 2015 the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Up to 3 months	92,713	50,335
4 to 6 months	30,372	4,893
7 to 12 months	5,428	2,493
Over 1 year	108	1,196
	128,621	58,917

As at 31 December 2016, trade receivables of approximately RMB 22,333,000 (2015: RMB 9,907,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty, and based on experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Past due for 1 to 6 months	22,215	7,743
Past due for more than 6 months	118	2,164
	22,333	9,907

As at 31 December 2016, trade receivables of approximately RMB 17,959,000 (2015: nil) were impaired. The amount of the provision was RMB 2,692,000 (2015: nil). The individually impaired receivables mainly related to customers who were in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Past due for 1 to 6 months	16,951	—
Past due for more than 6 months and less than 1 year	900	—
Past due for more than 1 year	108	—
	17,959	—

17 TRADE AND OTHER RECEIVABLES – *continued*

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
As at 1 January	—	—
Provision for receivables impairment	**2,692**	—
As at 31 December	**2,692**	—

The carrying amounts of the Group's trade and other receivables were mainly dominated in RMB and approximated their fair values as at the respective balance sheet dates. The maximum exposure to credit risk at the reporting date is the carrying value of receivable mentioned above. The Group does not hold any collateral as security.

18 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash on hand	**152**	171
Cash at bank	**127,538**	8,835
Cash and cash equivalents	**127,690**	9,006

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**41,920**	8,985
US$	**11,937**	21
HK$	**73,833**	—
	127,690	9,006

19 SHARE CAPITAL AND SHARE PREMIUM

		Amount		
	Number of ordinary shares '000	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 24 December 2015	—	—	—	—
Issue of ordinary shares	20	—	—	—
31 December 2015	20	—	—	—
Issue of shares upon initial public offering (a)	180,000	1,598	100,545	102,143
Share capitalisation (b)	539,980	4,795	(4,795)	—
At 31 December 2016	720,000	6,393	95,750	102,143

Notes:

(a) On 19 December 2016, the Company issued 180,000,000 shares of HK$ 0.01 each at HK$ 0.70 per share in connection with its initial public offering and commencement of the listing of its shares on The Stock Exchange of Hong Kong Limited on the same date. The gross proceeds raised from the initial public offering was HK$ 126,000,000 (approximately RMB 111,880,000). The transaction costs of RMB 9,737,000 were debited to the share premium account.

(b) On 19 December 2016, conditional on the share premium account of the Company being credited as a result of the issue of 180,000,000 shares by the Company in relation to the initial public offering, the directors of the Company were authorised to capitalise an amount of HK$ 5,399,800 (approximately RMB 4,795,000) from the share premium account of the Company by applying such sum in paying up in full at par of the offer shares. The 539,980,000 shares were allotted and issued to the shareholders whose names appearing on the register of members of the Company at the close business on 25 November 2016 in proportion to their then respective shareholdings in the Company.

After the issuance of the initial public shares and share capitalisation, the total number of the Company's ordinary shares in issue is 720,000,000 at the par value of HK$ 0.01 per share.

20 CAPITAL AND OTHER RESERVES

	Capital reserve RMB'000	Statutory reserve RMB'000	Total RMB'000
Balance at 1 January 2015	23,579	6,818	30,397
Capital contribution from the then equity holders of the subsidiaries comprising the Group	3,310	—	3,310
Profit appropriation to statutory reserve	—	4,925	4,925
Balance at 31 December 2015	26,889	11,743	38,632
Profit appropriation to statutory reserve	—	6,494	6,494
Balance at 31 December 2016	26,889	18,237	45,126

The capital contribution from the then equity holders of the subsidiaries comprising the Group represents the capital injection to Heroic Group Limited and its subsidiaries made by the founding shareholders during the year.

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

21 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Finance lease liabilities (b)	**—**	1,023
Current		
Short-term bank borrowings		
– Secured (a)	**78,000**	46,000
– Unsecured (a)	**6,000**	—
Finance lease liabilities (b)	**1,023**	3,789
	85,023	49,789
Total borrowings	**85,023**	50,812

(a) Borrowings from banks

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB 23,300,000 (2015: RMB 23,807,000), plants of the Group with net book value of RMB 58,321,000 (2015: RMB 60,435,000), as at 31 December 2016. The borrowings were also supported by guarantees from related parties (Note 27(a (iii))).

The Group's unsecured borrowing as at 31 December 2016 was guaranteed by Heze Jinhe Financing Guarantee Investment Co., Ltd, an independent third party of the Group.

For years ended 31 December 2016, the weighted average effective interest rate on borrowings from banks was 6.35% (2015: 7.73%).

The carrying amounts of the Group's borrowings from banks were denominated in RMB and approximated their fair value as at the respective balance sheet dates.

21 BORROWINGS – *continued*

(b) Finance lease liabilities

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group (Note 15).

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**1,046**	4,178
Later than 1 year and no later than 5 years	**—**	1,046
	1,046	5,224
Future finance charges on finance leases	**(23)**	(412)
Present value of finance lease liabilities	**1,023**	4,812
The present value of finance lease liabilities is as follows:		
No later than 1 year	**1,023**	3,789
Later than 1 year and no later than 5 years	**—**	1,023
	1,023	4,812

The effective annual interest rate of these finance lease liabilities was 12.56% as at 31 December 2016 and 2015.

The net carrying amount of the machinery under finance leases amounted to RMB 12,316,000 (2015: RMB 13,244,000) as at 31 December 2016.

The carrying amounts of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the respective balance sheet dates.

22 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables	**3,610**	7,665
Advances from customers	**1,482**	2,872
Payable for professional fees in respect of initial public offering	**11,161**	5,089
Other taxes payable	**2,797**	2,982
Employee benefit payables	**8,147**	11,366
Others	**2,708**	2,734
	29,905	32,708

As at 31 December 2016 and 2015 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 3 months	**3,610**	6,596
4 to 6 months	**—**	117
7 to 12 months	**—**	903
1 - 2 years	**—**	49
	3,610	7,665

The carrying amounts of the Group's trade and other payables were mainly denominated in RMB and approximated their fair values as at the respective balance sheet dates.

23 DEFERRED INCOME

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants relating to property, plant and equipment	417	440

The government grants were received from the local government as a subsidy to the Group's purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the year were as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	440	468
Amortised as income (Note 7)	(23)	(28)
At end of year	417	440

24 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	(1,194)	(447)
– Deferred tax asset to be recovered within 12 months	2,265	2,418
	1,071	1,971
Deferred tax liabilities:		
– Deferred tax liability to be settled within 12 months	—	(581)
– Deferred tax liability to be settled after more than 12 months	—	469
	—	(112)
Deferred tax assets (net)	1,071	1,859

24 DEFERRED INCOME TAX – *continued*

The gross movement of the deferred income tax assets (net) is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	**1,859**	1,555
Income statement charge/(credit) (Note 11)	**(788)**	304
At end of year	**1,071**	1,859

The movement in deferred income tax assets and liabilities during the year, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Impairment losses RMB' 000	Government grants RMB' 000	Amortisation difference of unrecognised finance lease charge RMB' 000	Employee benefits accrual RMB' 000	Total RMB' 000
At 1 January 2015	140	118	195	2,203	2,656
(Charged)/credited to the consolidated statements of comprehensive income	–	(6)	171	681	846
At 31 December 2015	140	112	366	2,884	3,502
At 1 January 2016	140	112	366	2,884	3,502
(Charged)/credited to the consolidated statements of comprehensive income	673	(6)	64	(847)	(116)
At 31 December 2016	813	106	430	2,037	3,386

24 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities	Depreciation difference of property, plant and equipment RMB'000	Capitalised interest RMB'000	Total RMB'000
At 1 January 2015	875	226	1,101
(Credited)/charged to the consolidated statements of comprehensive income	551	(9)	542
At 31 December 2015	1,426	217	1,643
At 1 January 2016	**1,426**	**217**	**1,643**
(Credited)/charged to the consolidated statements of comprehensive income	**678**	**(6)**	**672**
At 31 December 2016	**2,104**	**211**	**2,315**

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the earnings of the PRC subsidiaries up to 31 December 2016, as there is no plan of dividends distribution of such earnings in the foreseeable future. Unremitted earnings and the related deferred income tax liabilities have not been recognised for the year are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Unremitted earnings of PRC subsidiaries	**160,332**	101,889
Deferred income tax liabilities not recognised for withholding tax	**16,033**	10,189

25 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Profit before income tax	75,262	61,668
Adjustments for:		
– Depreciation of property, plant and equipment (Note 15)	5,206	5,366
– Amortisation of land use right (Note 14)	507	506
– Amortisation of deferred income (Note 23)	(23)	(28)
– Provision for Accounts Receivables (Note 17)	2,692	—
– Finance expenses – net (Note 10)	4,494	5,427
Changes in working capital		
– Inventories	(12,058)	(10,216)
– Trade and other receivables	(70,211)	66,052
– Trade and other payables	(2,801)	(10,883)
Cash generated from operations	3,068	117,892

26 COMMITMENTS

Operating lease commitments

The group leases offices under non-cancellable operating lease agreements. The lease terms are between 1 and 2 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
No later than 1 year	709	—
Later than 1 year and no later than 5 years	656	—
	1,365	—

27 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Ke Mingcai	Shareholder, Chairman and executive Director of the Company
Mr. Zhang Ayang	Executive Director of the Company
Mr. Wu Zhibin	Key management of the Company
Mr. Cai Jinxu	Shareholder of the Company

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and balances arising from related party transactions as at the respective balance sheet dates:

(a) Discontinued transactions with related parties

		Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
(i)	Amounts received from related parties		
	– Mr. Ke Mingcai	**155,115**	17,858
(ii)	Amounts repaid to related parties		
	– Mr. Ke Mingcai	**(155,115)**	(71,071)

(iii) Guarantees provided by related parties to the Group's short-term borrowings form banks

As at 31 December 2016, the Group's short term borrowings of RMB 40,000,000 were guaranteed by Mr. Cai Jinxu and Mr. Wu Zhibin. (Note 21(a)).

As at 31 December 2015, the Group's short term borrowings of RMB 36,000,000 were guaranteed by Mr. Cai Jinxu, Mr. Wu Zhibin and Mr. Zhang Ayang (Note 21(a)).

27 RELATED PARTY TRANSACTIONS– *continued*

(b) Continuing transactions with related parties

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Key management compensation		
– Salaries and bonus	**1,076**	508
– Pension, housing fund, medical insurance and other benefits	**38**	34
	1,114	542

28 CONTINGENCIES

As at 31 December 2016 and 2015, there were no significant contingencies items for the Group and the Company.

29 EVENTS AFTER THE BALANCE SHEET DATE

On 6 January 2017, an aggregate of 27,000,000 shares of the Company were issued at a price of HK$ 0.70 pursuant to the exercise of an over-allotment option in connection with the initial public offering of the Company in December 2016. The gross proceeds raised was HK$ 18,900,000 (approximately RMB 16,906,000).

30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	136,450	136,450
Current assets		
Trade and other receivables	25,870	—
Cash and cash equivalents	72,864	—
	98,734	—
Total assets	235,184	136,450
EQUITY		
Capital and reserves attributable to the shareholders		
Share capital	6,393	—
Share premium	95,750	—
Other reserves	136,450	136,450
Accumulated losses	(13,444)	(3,584)
Total equity	225,149	132,866
LIABILITIES		
Current liabilities		
Trade and other payables	10,035	3,584
Total liabilities	10,035	3,584
Total equity and liabilities	235,184	136,450

The balance sheet of the Company was approved by the Board of Directors on 27 March 2017 and was signed on its behalf.

KE Mingcai
Director

WANG Songmao
Director

30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(b) Reserve movement of the Company

	Accumulated losses RMB'000	Other reserves RMB'000
At 24 December 2015	—	—
Loss for the year	(3,584)	—
Investment in a subsidiary	—	136,450
At 31 December 2015	(3,584)	136,450
Loss for the year	**(9,860)**	—
At 31 December 2016	**(13,444)**	**136,450**

31 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and the chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year is set out as follows:

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit RMB'000	Total RMB'000
Year ended 31 December 2016				
Mr. Ke Mingcai	—	118	13	131
Mr. Wang Songmao (i)	—	100	13	113
Mr. Zhang Ayang	—	102	13	115
Mr. Wu Shican	—	89	13	102
Mr. Lin Triomphe Zheng (ii)	12	—	—	12
Mr. Shao Wanlei (ii)	12	—	—	12
Mr. Wang Yuzhao (ii)	6	—	—	6
	30	409	52	491
Year ended 31 December 2015				
Mr. Ke Mingcai	—	132	9	141
Mr. Wang Songmao (i)	—	120	9	129
Mr. Zhang Ayang	—	120	9	129
Mr. Wu Shican	—	96	9	105
	—	468	36	504

31 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' and the chief executive's emoluments – *continued*

(i) The chief executive of the Company is Mr. Wang Songmao, who is also one of the Directors of the Company.

(ii) Mr. Lin Triomphe, Mr. Shao Wanlei and Mr. Wang Yuzhao were appointed as Directors on 25 November 2016.

There were no remuneration paid to the Directors by the shareholders for the years ended 31 December 2016 and 2015.

For the years ended 31 December 2016 and 2015, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No Directors waived or had agreed to waive any emoluments.

For the years ended 31 December 2016 and 2015, no consideration was provided to third parties for making available Directors' services.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at each of the year ended 31 December 2016 and 2015 or at any time during the years.

SUMMARY FINANICIAL INFORMATION

	Years ended 31 December			
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**466,118**	380,860	317,022	166,085
Gross profit	**106,149**	83,490	75,037	35,044
Operating profit	**79,756**	67,095	57,212	27,768
Profit before income tax	**75,262**	61,668	52,481	27,172
Income tax expense	**(22,031)**	(16,446)	(13,555)	(6,842)
Total comprehensive income for the year, attributable to owners of the Company	**53,231**	45,222	38,926	20,330
Earnings per share for profits attributable to owners of the Company – Basic and diluted	**9.74 cents**	8.37 cents	7.21 cents	3.76 cents

	As at 31 December			
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Non-current assets	**124,184**	130,655	135,923	114,266
Current assets	**302,419**	105,219	153,748	70,668
Total assets	**426,603**	235,874	289,671	184,934
Non-current liabilities	**417**	1,575	5,278	494
Current liabilities	**134,399**	97,886	196,512	141,383
Total liabilities	**134,816**	99,461	201,790	141,877
Total equity	**291,787**	136,413	87,881	43,057