



Nature Home Holding Company Limited  
大自然家居控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code: 2083



INTERIM REPORT 2017

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Se Hok Pan (*Chairman*)  
Mr. Liang Zhihua (*President*)  
Ms. Un Son I  
Mr. She Jian Bin

### Non-executive Directors

Mr. Homer Sun  
Mr. Teoh Chun Ming

### Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur  
Mr. Zhang Sen Lin  
Mr. Chan Siu Wing, Raymond  
Mr. Ho King Fung, Eric

### Alternate Director

Mr. Law Wing Cheung, Ryan  
(*alternate director to Mr. Homer Sun*)

## Audit Committee

Mr. Chan Siu Wing, Raymond (*Chairman*)  
Mr. Zhang Sen Lin  
Mr. Ho King Fung, Eric

## Remuneration Committee

Professor Li Kwok Cheung, Arthur (*Chairman*)  
Mr. Zhang Sen Lin  
Mr. Ho King Fung, Eric

## Nomination Committee

Mr. Se Hok Pan (*Chairman*)  
Mr. Chan Siu Wing, Raymond  
Mr. Ho King Fung, Eric

## Corporate Governance Committee

Mr. Se Hok Pan (*Chairman*)  
Mr. Ho King Fung, Eric  
Mr. Teoh Chun Ming

## Executive Committee

Mr. Se Hok Pan (*Chairman*)  
Ms. Un Son I

## Company Secretary

Mr. Lai Kwok Keung, Alex

## Authorised Representatives

Mr. Se Hok Pan  
Mr. Lai Kwok Keung, Alex

## Auditors

KPMG

## Principal Bankers

Industrial and Commercial Bank of China  
Shunde Rural Commercial Bank  
Standard Chartered Bank (Hong Kong) Limited

## Registered Office

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

## Corporate Information (Continued)

### Principal Place of Business in Hong Kong

Suite 2601, 26/F,  
Tower 2, The Gateway, Harbour City  
Tsim Sha Tsui, Kowloon  
Hong Kong

### Head Office in the PRC

8 Longpan West Road  
New District  
Daliang, Shunde  
Foshan City  
Guangdong Province  
The PRC

### Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited  
4th Floor, Royal Bank House  
24 Shedden Road, George Town  
Grand Cayman KY1-1110  
Cayman Islands

### Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor  
Services Limited  
Shops 1712–1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### Website

[www.nature-home.com.hk](http://www.nature-home.com.hk)

### Stock Code

2083

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

For the six months ended 30 June 2017 (the “Period”), benefiting from the improved consumers sentiment of the property and home decoration products market in the People’s Republic of China (the “PRC”) and the Group’s continuous efforts in enhancing the effectiveness of internal management and resources integration during the Period, the overall revenue, especially that from the home decoration products of our own factories, has increased. The sales of the three core businesses of the Group, namely manufacturing and sale of home decoration products, provision of trademark and distribution network and trading of timber and home decoration products increased by approximately 31.4%, 6.1% and 2.2%, respectively, resulting an increase of 23.2% in overall revenue when compared to the corresponding period of last year.

### 1. Manufacturing and Sale of Home Decoration Products

The home decoration products of the Group mainly comprise floorings, wooden doors, wardrobes and cabinets, and wall paper. For the six months ended 30 June 2017, the sales for the manufacturing and sales of home decoration products of the Group was RMB803,382,000 (for the six months ended 30 June 2016: RMB611,316,000), representing an increase of 31.4%. Such increase was principally attributable to the overall and continuous growth of the Group’s floorings, wooden doors, wardrobes, cabinets and wall paper business in the PRC.

#### The business of manufacturing and sale of flooring products

The sales for the manufacturing and sale of flooring products business increased by 25.9% as compared to the corresponding period of last year. The Group’s flooring products mainly include laminated floorings and engineered floorings. In respect of its flooring sales and distribution network, the Group has established a sound and extensive sales network in the PRC. The Group has also become a major PRC distributor of a number of renowned foreign brands of flooring products. As at 30 June 2017, the number of flooring stores reached 3,508 (31 December 2016: 3,492) in total, of which, there were 3,303 “Nature” stores (31 December 2016: 3,329), and 205 foreign brand stores (31 December 2016: 163).

During the Period, the Group continued to leverage on its leading advantage in the flooring market in the PRC, as a result of which the sales for the business of manufacturing and sale of flooring products recorded a satisfactory increase. We will also continue to work with different renowned foreign brands of flooring products in order to meet the need of customers who were in favor of foreign brands. In addition, we would also actively develop new products, for example, we begin to develop kitchen and wash room floorings during the Period.

## Management Discussion and Analysis (Continued)

The Group currently owns six production plants for flooring products, which mainly engage in the manufacturing of laminated floorings and engineered floorings. We are also planning the construction of new production plants for kitchen and wash room floorings.

### **The business of manufacturing and sale of wooden doors, wardrobes and cabinets**

The business of wooden doors, wardrobes and cabinets has become one of the core businesses of the Group. The Group has established a number of sub-brands to further tap into the market of wooden doors, wardrobes and cabinets. Our wooden doors, wardrobes and cabinets are customised on customer's requirements.

With respect to the wooden doors business, the Group continued to record losses for this segment during the Period. Nevertheless, the sales amount increased as compared to the corresponding period of last year. As at 30 June 2017, the number of the Group's stores for wooden doors has reached 426 (31 December 2016: 576). The Group currently owns two wooden door production plants, of which the production plant at Taizhou, Jiangsu, the PRC is the largest production factory of wooden doors of the Group equipped with advanced production equipment imported from overseas.

With respect to the business of wardrobes and cabinets, although the segment still recorded losses as whole during the Period, its sales amount increased as compared to the corresponding period of last year.

The Group has been striving for introducing the foreign advanced production technology and manufacturing technique and experience for intellectual products into Chinese market through the strategic cooperation with foreign brands and expanding various sales channels for wardrobes and cabinets products. We will invest additional resources to develop the relevant brands. As at 30 June 2017, the Group owns a total of 143 (31 December 2016: 178) wardrobe and cabinet stores. The Group currently owns two production plants for wardrobe and cabinet products.

### **The business of manufacturing and sale of wall papers**

The Group acquired the entire equity interest in Guangxi Nature Bigao Gaoxin Decoration Material Company Limited (廣西大自然壁高高新裝飾材料有限公司) ("Guangxi Bigao") in June 2016. Guangxi Bigao sells its wall paper products under the "Geko" and "壁高" brands, and has advanced production plants for manufacturing of wall paper products in Guangxi. The business of manufacturing and sale of wall papers recorded a slight loss during the Period. As at 30 June 2017, the number of wall paper stores of the Group reached 536 (31 December 2016: 518).

## Management Discussion and Analysis (Continued)

### 2. Provision of Trademark and Distribution Network

The Group's flooring products under the "Nature" brand are manufactured by its own production plants and through its exclusive authorized manufacturers. Such authorized manufacturers only manufacture our branded flooring products and sell these products to the distributors within our distribution network in an exclusive and direct manner, for which we charge them trademark and distribution network usage fees.

As the sales of solid wood, engineered and three-layered flooring products authorized to manufacture increased, the sales generated from provision of trademark and distribution network increased by 6.1% to approximately RMB93,328,000 during the Period from approximately RMB87,930,000 in the corresponding period last year.

### 3. Trading of Timber and Home Decoration Products

The Group's trading products include flooring products exported to the U.S., flooring and wardrobe products imported to China and timber and wood products exported from Peru. Affected by the overseas business reorganization last year, the Group's overseas trading business continued to shrink. However, the import trading business recorded continuous growth due to the market recovery in the PRC. Generally, the revenue from trading business of timber and home decoration products remained steady and grew soundly, which increased by 2.2% to approximately RMB161,773,000 from approximately RMB158,296,000 in the corresponding period last year.

### Prospect

After years of development, the Group has established a solid customer base in the PRC market and extensive sales network and channels. During the Period, the Group's manufacturing and sale of flooring products, being our core business, continued to grow to our satisfaction and made steady contributions to the Group. We also recorded an increase in the business of manufacturing and sale of other tailored-made home decoration products which include wooden doors, wardrobes and cabinets. However, the overall performance of such tailored-made home decoration products still recorded losses and was not satisfying. As a result, we will comprehensively assess the business benefits of all products in the coming year and actively consider resource integration in terms of business structure, production and human resources of these products, with an aim to improve the overall business efficiency of each product of the Group in the future.

The Group expects that the real estate and home decoration product market in the PRC will continue to develop steadily in the future. We will seize this opportunity to increase our market share continuously so as to stay at the forefront in the flooring market in order to bring higher return for shareholders. We will also adopt the concept of environmental protection and product safety in the business model of "Nature". The Group will keep adhering to the corporate philosophy of "fulfilling environmental responsibility and promoting healthy life" and continue to facilitate its environmental friendly and sustainable development.

## Management Discussion and Analysis (Continued)

### Financial Review

#### Revenue

In 2017, we generate revenue from three business segments: (1) manufacturing and sale of home decoration products; (2) provision of trademark and distribution network; and (3) trading of timber and home decoration products. The business of forestry management segment has ceased in June 2016.

“Manufacturing and sale of home decoration products” represents the revenue generated from the sales of laminated flooring, engineered flooring, wall decoration products and other wood products, including wooden doors, wardrobes and cabinets, that we manufacture at our own factories, and are measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

“Provision of trademark and distribution network” represents the fees for which we charge authorised manufacturers in connection with their rights to label all the products they manufacture with our trademark brands and sell those products exclusively and directly to the distributors in our distribution network. The fees are charged with reference to the sales volume and sales amounts of our branded flooring products.

“Trading of timber and home decoration products” represents the revenue generated primarily from timber trading to various customers, including our authorised manufacturers, and home decoration products trading to customers.

Set forth below is the revenues generated from each business segment for the periods indicated:

| Revenue  | 2017             |                    | 2016           |                    | Revenue Growth rate % |
|--|------------------|--------------------|----------------|--------------------|-----------------------|
|  | RMB'000          | % of total revenue | RMB'000        | % of total revenue |                       |
| Manufacturing and sale of home decoration products | 803,382          | 75.9               | 611,316        | 71.2               | 31.4                  |
| Provision of trademark and distribution network    | 93,328           | 8.8                | 87,930         | 10.2               | 6.1                   |
| Trading of timber and home decoration products     | 161,773          | 15.3               | 158,296        | 18.4               | 2.2                   |
| Forestry management                                | —                | —                  | 1,455          | 0.2                | (100.0)               |
| <b>Total</b>                                       | <b>1,058,483</b> | <b>100.0</b>       | <b>858,997</b> | <b>100.0</b>       | <b>23.2</b>           |



## Management Discussion and Analysis (Continued)

For the six months ended 30 June 2017, the Group generated revenues of approximately RMB1,058,483,000, representing an increase of 23.2%, as compared with approximately RMB858,997,000 for the corresponding period of 2016.

Revenue from manufacturing and sale of home decoration products increased by 31.4% to approximately RMB803,382,000 for the Period compared to approximately RMB611,316,000 for the corresponding period of 2016. It was mainly attributable to the increase in demand for our branded flooring, doors, wardrobes and cabinet products in the PRC.

Revenue from provision of trademark and distribution network increased by 6.1% to approximately RMB93,328,000 for the Period compared to approximately RMB87,930,000 for the corresponding period of 2016. It was mainly attributable to the increase in demand for solid wood and engineered flooring products manufactured by authorised manufacturers.

Revenue from trading of timber and home decoration products increased by 2.2% to approximately RMB161,773,000 for the Period compared to approximately RMB158,296,000 for the corresponding period of 2016. It was mainly attributable to the increase in demand for imported flooring products and imported timber.

### Cost of Sales

Cost of sales for manufacturing and sale of home decoration products consists primarily of raw materials costs, labour costs and overhead costs. The major raw materials used in our own manufacturing activities are timber, veneers, fiberboards and plywood. Labour costs consist of salaries, wages and other benefits we paid to our production staff. Overhead costs primarily include utilities and depreciation.

Cost of sales for provision of trademark and distribution network consists primarily of the labour costs and travelling expenses relating to our representatives who provide authorised manufacturers with onsite technical and logistics support and conduct quality control measures on their products.

Cost of sales for trading of timber and home decoration products consists primarily of the cost of timber and the cost of home decoration products for trading.

## Management Discussion and Analysis (Continued)

Set forth below is the cost of sales for each business segment for the periods indicated:

| Cost of Sales                                      | Six months ended 30 June |                 | Growth rate<br>% |
|--|--------------------------|-----------------|------------------|
|  | 2017<br>RMB'000          | 2016<br>RMB'000 |                  |
| Manufacturing and sale of home decoration products | 606,470                  | 452,333         | 34.1             |
| Provision of trademark and distribution network    | 2,505                    | 3,865           | (35.2)           |
| Trading of timber and home decoration products     | 139,243                  | 154,102         | (9.6)            |
| Forestry management                                | —                        | 1,799           | (100.0)          |
| Total  | 748,218                  | 612,099         | 22.2             |

### Gross Profit/(Loss)

Set forth below is the gross profit/(loss) for each business segment for the periods indicated:

| Gross Profit/(Loss)                                | Six months ended 30 June |                 | Growth rate<br>% |
|--|--------------------------|-----------------|------------------|
|  | 2017<br>RMB'000          | 2016<br>RMB'000 |                  |
| Manufacturing and sale of home decoration products | 196,912                  | 158,983         | 23.9             |
| Provision of trademark and distribution network    | 90,823                   | 84,065          | 8.0              |
| Trading of timber and home decoration products     | 22,530                   | 4,194           | 437.2            |
| Forestry management                                | —                        | (344)           | (100.0)          |
| Total  | 310,265                  | 246,898         | 25.7             |

For the six months ended 30 June 2017, the overall gross profit increased by 25.7% to approximately RMB310,265,000 compared to approximately RMB246,898,000 for the corresponding period of 2016 and the gross profit margin increased to 29.3% from 28.7% for the corresponding period of 2016.

The segment of manufacturing and sale of home decoration products contributed a gross profit of approximately RMB196,912,000 for the Period, representing an increase of 23.9%, compared to approximately RMB158,983,000 for the corresponding period of 2016. It was mainly attributable to the increase in demand for our products. The gross profit margin decreased to 24.5% compared to 26.0% for the corresponding period of 2016. It was mainly due to the decrease in gross profit margin for our project sales.

## Management Discussion and Analysis (Continued)

The segment of provision of trademark and distribution network contributed a gross profit of approximately RMB90,823,000 for the Period, representing an increase of 8.0%, compared to approximately RMB84,065,000 for the corresponding period of 2016. The gross profit margin increased to 97.3% compared to 95.6% for the corresponding period of 2016. Increased in gross profit was mainly attributable to the increase in demand of solid wood and engineered flooring products manufactured by authorised manufacturers.

The segment of trading of timber and home decoration products contributed a gross profit of approximately RMB22,530,000 for the Period, representing an increase of 437.2%, compared to approximately RMB4,194,000 for the corresponding period of 2016. The gross profit margin increased to 13.9% compared to 2.6% for the corresponding period of 2016. In 2016, the low gross profit margin was mainly due to write down of inventories resulted from the restructuring of distribution networks of our flooring products in the United States.

### Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income increased by 104.3% to approximately RMB33,862,000 for the Period, compared to approximately RMB16,578,000 for the corresponding period of 2016. It was primarily attributable to net unrealized gains on convertible note and warrants.

### Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation and storage fees, staff costs, travelling expenses, decoration allowance to distributors and other miscellaneous expenses.

Distribution costs was approximately RMB171,134,000 for the Period, representing an increase of approximately 21.7%, compared to approximately RMB140,651,000 for the corresponding period of 2016. It was primarily due to the increase in decoration allowance to distributors, staff costs and travelling expenses and advertising and promotion expenses resulted from increase in sales.

### Administrative Expenses

Administrative expenses consist primarily of staff costs, audit, legal and consulting fees, depreciation and amortization expenses, operating lease charges, travelling expenses and other miscellaneous expenses.

Administrative expenses was approximately RMB109,647,000 for the Period, representing an increase of approximately 0.9%, compared to approximately RMB108,702,000 for the corresponding period of 2016. It was primarily due to the net effect of increase in staff costs and depreciation and decrease in allowance for doubtful debts.

### Other Operating Expenses

Other operating expenses increased by 2.6% to approximately RMB18,903,000 for the Period, compared to approximately RMB18,422,000 for the corresponding period of 2016. In 2017, other operating expenses mainly represented impairment loss for investments in listed equity securities. In 2016, it mainly consisted of loss on disposal of property, plant and equipment, and loss on disposal of a subsidiary.

## Management Discussion and Analysis (Continued)

### Net Finance Costs

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits and net foreign exchange gain. Finance costs consist primarily of interest expenses on bank loans and net foreign exchange loss.

Finance income increased by 46.2% to approximately RMB5,196,000 for the Period compared to approximately RMB3,554,000 for the corresponding period of 2016. It was primarily attributable to the increase in interest income on fixed deposits.

Finance costs increased by 6.1% to approximately RMB15,855,000 for the Period as compared to approximately RMB14,944,000 for the corresponding period of 2016. It was mainly due to the increase in net foreign exchange loss in 2017.

### Income Tax

Income tax represents the combination of our current income tax and deferred income tax.

Income tax was approximately RMB22,370,000 for the Period compared to approximately RMB9,138,000 for the corresponding period of 2016, which was the total effect of the current income tax of approximately RMB25,532,000 and the deferred tax income of approximately RMB3,162,000. The increase in income tax was mainly due to increase in profit of our PRC operations in 2017.

### Profit/(Loss) Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB16,459,000 for the Period, compared to the loss of approximately RMB16,186,000 for the corresponding period of 2016.

### Liquidity

#### Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations and (ii) proceeds from loans and borrowings. During the Period, the Group generated net cash inflow of RMB100,097,000 from operating activities (corresponding period of 2016: RMB46,152,000) and obtained a net increase in bank loans of RMB30,195,000 (corresponding period of 2016: RMB78,938,000).

#### Net Current Assets and Working Capital Sufficiency

As at 30 June 2017, net current assets was approximately RMB1,049,027,000, representing an increase of 1.5%, compared to approximately RMB1,033,349,000 as at 31 December 2016. The current ratios as at 30 June 2017 and 31 December 2016 were 1.7 and 1.7, respectively.

## Management Discussion and Analysis (Continued)

### Trade and Bills Receivables

As at 30 June 2017, trade and bills receivables decreased by 9.9% to approximately RMB983,291,000 compared to approximately RMB1,091,312,000 as at 31 December 2016. It was mainly attributable to reinforcement of credit control during the Period.

### Financial Resources

The following table presents our adjusted gearing ratio of the Group as at the dates indicated.

|                                 | As at<br>30 June<br>2017<br>RMB'000 | As at<br>31 December<br>2016<br>RMB'000 |
|---------------------------------|-------------------------------------|---|
| Bills payable                   | 228,330                             | 213,150                                 |
| Bank loans: current             | 603,841                             | 585,060                                 |
| non-current                     | 90,570                              | 88,510                                  |
| Sub-total                       | 922,741                             | 886,720                                 |
| Less: Cash and cash equivalents | 688,892                             | 618,703                                 |
| Pledged and restricted deposits | 266,960                             | 256,311                                 |
| Adjusted net (assets)/debts     | (33,111)                            | 11,706                                  |
| Total equity                    | 2,118,366                           | 2,083,039                               |
| Adjusted gearing ratios         | (0.02)                              | 0.01                                    |

Our adjusted gearing ratios, which are derived by dividing adjusted net (assets)/debts by total equity of the Group, were negative 0.02 and positive 0.01 as at 30 June 2017 and 31 December 2016 respectively.

Adjusted net (assets)/debts is defined as total debts which include bills payable and interest bearing loans, less cash and cash equivalents and pledged and restricted deposits.

## Management Discussion and Analysis (Continued)

### Bank Loans

(a) At 30 June 2017, the bank loans were repayable as follows:

|                                 | At<br>30 June<br>2017<br>RMB'000 | At<br>31 December<br>2016<br>RMB'000 |
|---------------------------------|----------------------------------|--------------------------------------|
| Within 1 year or on demand      | 603,841                          | 585,060                              |
| After 1 year but within 2 years | —                                | 19,500                               |
| After 5 years                   | 90,570                           | 69,010                               |
| Sub-total                       | 90,570                           | 88,510                               |
| Total                           | 694,411                          | 673,570                              |

An analysis of secured and unsecured bank loans is as follows:

|                     | At<br>30 June<br>2017<br>RMB'000 | At<br>31 December<br>2016<br>RMB'000 |
|---------------------|----------------------------------|--------------------------------------|
| <b>Current:</b>     |                                  |                                      |
| Secured (note (i))  | 516,178                          | 457,421                              |
| Unsecured           | 87,663                           | 127,639                              |
|                     | 603,841                          | 585,060                              |
| <b>Non-current:</b> |                                  |                                      |
| Secured (note (i))  | 90,570                           | 88,510                               |
|                     | 90,570                           | 88,510                               |
|                     | 694,411                          | 673,570                              |

## Management Discussion and Analysis (Continued)

### Notes:

- (i) At 30 June 2017, the Group has secured loans and borrowings amounting to approximately RMB606,748,000 (31 December 2016: RMB545,931,000), of which:
- approximately RMB66,500,000 (31 December 2016: RMB69,500,000) were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantee;
  - approximately RMB494,678,000 (31 December 2016: RMB452,421,000) were solely secured by assets of the Group;
  - approximately RMB45,570,000 (31 December 2016: RMB24,010,000) were solely guaranteed by the third parties on the joint and several guarantee.

These third party guarantors are minority shareholders of a subsidiary and a debtor.

- (ii) The pledged assets of the Group are as following:

|                                     | At<br>30 June<br>2017<br>RMB'000 | At<br>31 December<br>2016<br>RMB'000 |
|-------------------------------------|----------------------------------|--------------------------------------|
| Restricted deposits                 | 166,470                          | 165,000                              |
| Other property, plant and equipment | 144,234                          | 148,200                              |
| Investment properties               | 5,637                            | 5,590                                |
| Lease prepayments                   | 74,923                           | 75,225                               |
| Trade and bills receivables         | 259,500                          | 259,500                              |
|                                     | <b>650,764</b>                   | 653,515                              |

- (iii) Parts of the Group's banking facilities, amounted to RMB626,741,000 (31 December 2016: RMB709,400,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2016 and 30 June 2017, none of the covenants relating to drawn down facilities had been breached.
- (iv) The unutilised banking facilities as at 30 June 2017 amounted to RMB99,649,000 (31 December 2016: RMB161,098,000).

## Management Discussion and Analysis (Continued)

- (b) The following table details the interest rate profile of the Group's total borrowings at the end of the reporting periods:

|                                  | As at<br>30 June 2017           |                               | As at<br>31 December 2016       |                               |
|----------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
|                                  | Effective<br>interest rate<br>% | Carrying<br>amount<br>RMB'000 | Effective<br>interest rate<br>% | Carrying<br>amount<br>RMB'000 |
| <b>Variable rate instruments</b> |                                 |                               |                                 |                               |
| Bank loans                       | 3.81                            | 323,441                       | 3.84                            | 320,550                       |
| <b>Fixed rate instruments</b>    |                                 |                               |                                 |                               |
| Bank loans                       | 4.81                            | 370,970                       | 4.96                            | 353,020                       |
|                                  |                                 | <b>694,411</b>                |                                 | <b>673,570</b>                |

### Capital Expenditures

Capital expenditures amounted to RMB43,752,000 for the Period (corresponding period of 2016: RMB64,685,000). It primarily related to purchases of property, plant and equipment.

### Commitments and Contingent Liabilities

#### (a) Capital Commitments

Capital commitments outstanding at the end of reporting periods not provided for in the consolidated financial statements were as follows:

|                | As at<br>30 June<br>2017<br>RMB'000 | As at<br>31 December<br>2016<br>RMB'000 |
|----------------|-------------------------------------|---|
| Contracted for | 17,050                              | 23,661                                  |



## Management Discussion and Analysis (Continued)

### (b) Operating Lease Commitments

The Group leases a number of manufacturing facilities under operating leases. The leases typically run for an initial period of half a year to twenty years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

At the end of the reporting periods, the total future minimum lease payments under operating leases are as follows:

|                                  | As at<br>30 June<br>2017<br>RMB'000 | As at<br>31 December<br>2016<br>RMB'000 |
|----------------------------------|-------------------------------------|---|
| Within 1 year                    | 19,761                              | 21,674                                  |
| After 1 year but within 3 years  | 17,772                              | 25,733                                  |
| After 3 years but within 5 years | 9,151                               | 6,882                                   |
| After 5 years                    | 3,944                               | 4,236                                   |
|                                  | <b>50,628</b>                       | <b>58,525</b>                           |

### Foreign Currency Risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB"), United States Dollars ("USD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and British Pounds ("GBP"). On the other hand, our bank loans, cash and cash equivalents are primarily in RMB, USD, EUR and Hong Kong Dollars. The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

### Employees

As at 30 June 2017, the Group had 2,895 employees (at 31 December 2016: 2,817). Relevant staff cost was approximately RMB135,060,000 (including share option schemes and share award scheme expenses of approximately RMB5,599,000) for the Period compared to approximately RMB119,444,000 (including share option expenses of approximately RMB2,707,000) for the corresponding period of 2016. The Group will regularly review remuneration and benefits of its employees accordingly to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

## Management Discussion and Analysis (Continued)

### Material Acquisitions and Disposals of Subsidiaries, Associated Companies or Joint Ventures

The Group did not have any material acquisition or disposal of subsidiaries, associated companies or joint ventures for the six months ended 30 June 2017.

### Subsequent Events

No significant events took place subsequent to 30 June 2017.

### Future Plans for Material Investments

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2017.

## OTHER INFORMATION

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

| Name of Director                      | Number of shares held                     |                         | Total       | Percentage of shareholding<br>(Note 1) |
|---------------------------------------|---|-------------------------|-------------|--|
|                                       | Personal Interest                         | Corporate Interest      |             |  |
| Mr. Se Hok Pan                        | 22,600,000<br>1,500,000 (Note 2)          | 679,168,000<br>(Note 3) | 703,268,000 | 47.90%                                 |
|                                       | 24,100,000                                |                         |             |  |
| Mr. Liang Zhihua (also the President) | 22,576,780 (Note 2)<br>2,500,000 (Note 4) | Nil                     | 25,076,780  | 1.71%                                  |
|                                       | 25,076,780                                |                         |             |  |
| Ms. Un Son I                          | 1,500,000 (Note 2)                        | 679,168,000<br>(Note 3) | 680,668,000 | 46.36%                                 |
| Mr. She Jian Bin                      | 1,500,000 (Note 2)<br>1,500,000 (Note 4)  | Nil                     | 3,000,000   | 0.20%                                  |
|                                       | 3,000,000                                 |                         |             |  |
| Mr. Teoh Chun Ming                    | 4,677,900 (Note 2)                        | Nil                     | 4,677,900   | 0.32%                                  |
| Professor Li Kwok Cheung, Arthur      | 1,000,000 (Note 2)                        | Nil                     | 1,000,000   | 0.07%                                  |
| Mr. Zhang Sen Lin                     | 1,000,000 (Note 2)                        | Nil                     | 1,000,000   | 0.07%                                  |
| Mr. Chan Siu Wing, Raymond            | 1,000,000 (Note 2)                        | Nil                     | 1,000,000   | 0.07%                                  |
| Mr. Ho King Fung, Eric                | 1,000,000 (Note 2)                        | Nil                     | 1,000,000   | 0.07%                                  |

Notes:

- Based on 1,468,237,990 shares of the Company in issue as at 30 June 2017.
- These interests represent the options granted to the directors pursuant to the terms of the share option schemes adopted by the Company, which entitle the directors to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.

## Other Information (Continued)

3. Amongst these 679,168,000 shares, 678,768,000 shares are owned by Freewings Development Co., Ltd. and 400,000 shares are owned by Loyal Winner Limited. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Loyal Winner Limited is a private company beneficially owned as to 50% by Mr. Se Hok Pan and 50% by Ms. Un Son I. Ms. Un Son I is the spouse of Mr. Se Hok Pan.
4. These interests represent the award shares granted to the directors pursuant to the terms of the share award scheme adopted by the Company. Details of such award shares are disclosed under the paragraph headed "Share Award Scheme" below.
5. All interests stated are long positions.

### Substantial Shareholders

As at 30 June 2017, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name of shareholders  | Capacity and nature of interest     | Number of shares held | Percentage of shares in issue<br>(Note 1) |
|---|-------------------------------------|-----------------------|---|
| Freewings Development Co., Ltd.                               | Beneficial owner                    | 678,768,000 (Note 2)  | 46.23%                                    |
| Team One Investments Limited                                  | Interest in controlled corporations | 678,768,000 (Note 2)  | 46.23%                                    |
| Trader World Limited  | Interest in controlled corporations | 678,768,000 (Note 2)  | 46.23%                                    |
| MS Flooring Holdings Co., Ltd.                                | Beneficial owner                    | 269,999,990 (Note 3)  | 18.39%                                    |
| Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. | Interest in controlled corporations | 269,999,990 (Note 3)  | 18.39%                                    |
| Morgan Stanley Private Equity Asia III, Inc.                  | Interest in controlled corporations | 269,999,990 (Note 3)  | 18.39%                                    |
| Morgan Stanley Private Equity Asia III, L.L.C.                | Interest in controlled corporations | 269,999,990 (Note 3)  | 18.39%                                    |
| Morgan Stanley Private Equity Asia III, L.P.                  | Interest in controlled corporations | 269,999,990 (Note 3)  | 18.39%                                    |
| International Finance Corporation                             | Beneficial owner                    | 108,000,000           | 7.36%                                     |

## Other Information (Continued)

### Notes:

1. Based on 1,468,237,990 shares of the Company in issue as at 30 June 2017.
2. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan and Ms. Un Son I are directors of Freewings Development Co. Ltd..
3. MS Flooring Holdings Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is Morgan Stanley Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of Morgan Stanley Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.
4. All interests stated are long positions.

Save as disclosed above, the Directors are not aware that there is any party who, as at 30 June 2017, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## Rights to Acquire Company's Securities

Other than as disclosed under the section headed "Share Option Schemes" below, at no time during the period was the Company or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Share Option Schemes

### Pre-IPO Share Option Scheme

On 16 December 2008, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The rules of the Pre-IPO Share Option Scheme were subsequently amended pursuant to a written resolution passed by our then shareholders on 30 June 2010 and a written resolution of the Board on 26 April 2011. The purpose of the Pre-IPO Scheme Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons of the Pre-IPO Share Option Scheme include all employees (full-time or part-time) of the Company or any of its subsidiaries or investee companies.

## Other Information (Continued)

Subject to the satisfactory performance of the participants of the Pre-IPO Share Option Scheme, the options granted to each of the participants shall be vested in accordance with the following schedule:

### For the options granted on 17 December 2008

| <b>Vesting period</b>  | <b>Maximum cumulative percentage of options vested</b> |
|--|--|
| 30 December 2008   | 10%  |
| 30 December 2009   | 20%  |
| 30 December of the year of the date of listing i.e. 26 May 2011 (the "Listing Date") | 40%  |
| 30 December of the year 12 months from the Listing Date                              | 70%  |
| 30 December of the year 24 months from the Listing Date                              | 100%   |

### For the options granted on 1 July 2010

| <b>Vesting period</b>                                   | <b>Maximum cumulative percentage of options vested</b> |
|---|--|
| 30 December 2010  | 20%  |
| 30 December of the year of the Listing Date             | 40%  |
| 30 December of the year 12 months from the Listing Date | 70%  |
| 30 December of the year 24 months from the Listing Date | 100%   |

## Other Information (Continued)

Each option granted under the Pre-IPO Share Option Scheme has a ten-year exercise period provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from the Listing Date.

Further details of the principal terms of the Pre-IPO Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011. Details of the share options movements during the six months ended 30 June 2017 under the Pre-IPO Share Option Scheme are as follows:

| Category of participants              | Date of grant | Exercise period           | Exercise price per share | No. of shares involved in the options |                             |                             | No. of shares involved in the options outstanding at period end |
|---------------------------------------|---------------|---------------------------|--------------------------|---------------------------------------|-----------------------------|-----------------------------|---|
|                                       |               |                           |                          | exercised during the period           | exercised during the period | exercised during the period |   |
| <b>Directors of the Company</b>       |               |                           |                          |                                       |                             |                             |   |
| Liang Zhihua (also the President)     | 17/12/2008    | 17/12/2008–<br>16/12/2018 | HK\$2.35                 | 576,780                               | –                           | –                           | 576,780   |
|                                       | 1/7/2010      | 1/7/2010–<br>30/6/2020    | HK\$3.38                 | 7,000,000                             | –                           | –                           | 7,000,000   |
| Teoh Chun Ming                        | 17/12/2008    | 17/12/2008–<br>16/12/2018 | HK\$2.35                 | 1,677,900                             | –                           | –                           | 1,677,900   |
|                                       | 1/7/2010      | 1/7/2010–<br>30/6/2020    | HK\$3.38                 | 1,500,000                             | –                           | –                           | 1,500,000   |
| <b>Former Director of the Company</b> |               |                           |                          |                                       |                             |                             |   |
| Nam Cheung Ming                       | 17/12/2008    | 17/12/2008–<br>16/12/2018 | HK\$2.35                 | 1,887,640                             | –                           | –                           | 1,887,640   |
| <b>Employees</b>                      |               |                           |                          |                                       |                             |                             |   |
| Employees                             | 17/12/2008    | 17/12/2008–<br>16/12/2018 | HK\$2.35                 | 8,867,870                             | –                           | 78,650                      | 8,789,220   |
|                                       | 1/7/2010      | 1/7/2010–<br>30/6/2020    | HK\$3.38                 | 3,500,000                             | –                           | –                           | 3,500,000   |
| <b>Total</b>                          |               |                           |                          | 25,010,190                            | –                           | 78,650                      | 24,931,540  |

Save as disclosed above, no option under the Pre-IPO Share Option Scheme has been granted, cancelled or lapsed during the six months ended 30 June 2017. No further option will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

## Other Information (Continued)

### Share Option Scheme

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"). The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The purpose of the Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons under the Share Option Scheme include, among others, employees, directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

Further details of the principal terms of the Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011.

Details of the share options movements during the six months ended 30 June 2017 under the Share Option Scheme are as follows:

| Category of participants          | Date of Grant  | No. of shares involved in the options outstanding at the beginning of the period | Exercised during the period | Lapsed during the period | No. of shares involved in the options outstanding at period end |
|-----------------------------------|----------------|--|-----------------------------|--------------------------|---|
| <b>Directors of the Company</b>   |                |  |                             |                          |   |
| Se Hok Pan                        | 4 January 2012 | 1,500,000  | —                           | —                        | 1,500,000   |
| Liang Zhihua (also the President) | 4 January 2012 | 15,000,000   | —                           | —                        | 15,000,000  |
| Un Son I                          | 4 January 2012 | 1,500,000  | —                           | —                        | 1,500,000   |
| She Jian Bin                      | 4 January 2012 | 1,500,000  | —                           | —                        | 1,500,000   |
| Teoh Chun Ming                    | 4 January 2012 | 1,500,000  | —                           | —                        | 1,500,000   |
| Li Kwok Cheung, Arthur            | 4 January 2012 | 1,000,000  | —                           | —                        | 1,000,000   |
| Zhang Sen Lin                     | 4 January 2012 | 1,000,000  | —                           | —                        | 1,000,000   |
| Chan Siu Wing, Raymond            | 4 January 2012 | 1,000,000  | —                           | —                        | 1,000,000   |
| Ho King Fung, Eric                | 4 January 2012 | 1,000,000  | —                           | —                        | 1,000,000   |
| <b>Employees</b>                  |                |  |                             |                          |   |
| Employees                         | 4 January 2012 | 43,000,000   | —                           | —                        | 43,000,000  |
|                                   | 8 October 2013 | 18,800,000   | —                           | 1,400,000                | 17,400,000  |
| <b>Total</b>                      |                | <b>86,800,000</b>  | <b>—</b>                    | <b>1,400,000</b>         | <b>85,400,000</b>   |

Notes:

- For options granted on 4 January 2012, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK\$1.45 per share.



## Other Information (Continued)

- For options granted on 8 October 2013, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK\$1.61 per share.

Save as disclosed above, no option under the Share Option Scheme has been granted, cancelled or lapsed during the six months ended 30 June 2017.

### SHARE AWARD SCHEME

On 25 April 2016, the Board resolved to adopt a share award scheme (the “Share Award Scheme”) as a means to recognise the contribution of and provide incentives to the key management personnel including directors, senior management and core employees of the Group. The Share Award Scheme shall be valid and effective for a period of 4 years commencing from 25 April 2016 and is administrated by the Board and the trustee of the Share Award Scheme (the “Trustee”).

The shares to be awarded under the Share Award Scheme shall be acquired by the Trustee from the open market out of cash contributed by the Group and shall be held in trust for the relevant selected participants until such shares are vested with the relevant selected participants in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of award shares which will result in the aggregate number of award shares awarded by the Board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time and shall not award more than 1% of the total number of issued shares of the Company to each of the selected participants from time to time.

The Board may, from time to time, in its absolute discretion select the selected participants after taking into various factors as they deem appropriate and determine the number of award shares to be awarded to each of the selected participants at nil consideration.

Further details of the principal terms of the Share Award Scheme are set out in the announcement of the Company dated 25 April 2016.

The award shares are held on trust for the selected participants by the Trustee which shall, at the option of selected participants, (i) transfer the award shares to the selected participants at nil consideration, or (ii) sell the award shares and pay the proceeds from selling in cash to the selected participant, as the case may be, upon satisfaction of certain vesting criteria and conditions as determined by the Board.

## Other Information (Continued)

Details of the award shares outstanding and movements during the six months ended 30 June 2017 under the Share Award Scheme are set out as follows:

| Category of participant           | Date of Grant | Vesting Date  | Number of Award Shares                     |                           |                          |                             | Outstanding at the end of the period |
|-----------------------------------|---------------|---|--|---------------------------|--------------------------|-----------------------------|--------------------------------------|
|                                   |               |   | Outstanding at the beginning of the period | Granted during the period | Lapsed during the period | Exercised during the period |                                      |
| <b>Directors of the Company</b>   |               |   |  |                           |                          |                             |                                      |
| Liang Zhihua (also the President) | 25 April 2016 | (i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019 | 2,500,000                                  | —                         | —                        | —                           | 2,500,000                            |
| She Jian Bin                      | 25 April 2016 | (i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019 | 1,500,000                                  | —                         | —                        | —                           | 1,500,000                            |
| <b>Employees</b>                  |               |   |  |                           |                          |                             |                                      |
| Employees                         | 25 April 2016 | (i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019 | 25,000,000                                 | —                         | —                        | —                           | 25,000,000                           |
| Total                             |               |   | 29,000,000                                 | —                         | —                        | —                           | 29,000,000                           |

Note: The closing price of the shares of the Company on 22 April 2016, being the trading day immediately preceding the date on which the 29,000,000 award shares were granted, was HK\$1.07.

Save as disclosed above, no award shares have been granted under the Share Award Scheme. No grant of award shares has been cancelled or lapsed during the six months ended 30 June 2017.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “Code”) during the six months ended 30 June 2017.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the six months ended 30 June 2017.

## Other Information (Continued)

### Audit Committee

The Company has established an audit committee (the “Audit Committee”) with written terms of reference in compliance with the Code. As at the date of this report, the Audit Committee consists of the following members:

#### Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond (*Chairman*)  
Mr. Zhang Sen Lin  
Mr. Ho King Fung, Eric

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company’s financial controls, internal control and risk management systems, to review and monitor the effectiveness of the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed and discussed the interim results for the six months ended 30 June 2017 and this report.

### Remuneration Committee

The Company has established a remuneration committee (the “Remuneration Committee”) with written terms of reference in compliance with the Code. As at the date of this report, the Remuneration Committee consists of the following members:

#### Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (*Chairman*)  
Mr. Zhang Sen Lin  
Mr. Ho King Fung, Eric

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(i) of the Code in its terms of reference. It will determine, with delegated responsibilities, the remuneration packages of individual executive Directors and senior management. The other principal responsibilities of the Remuneration Committee include (i) 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, (ii) making recommendations to the Board on the remuneration of the non-executive directors; and (iii) reviewing and approving the management’s remuneration proposals with reference to the Board’s corporate goals and objectives.

## Other Information (Continued)

### Nomination Committee

The Company has established a nomination committee (the “Nomination Committee”) with written terms of reference in compliance with the Code. As at the date of this report, the Nomination Committee consists of the following members:

#### Executive Director

Mr. Se Hok Pan (*Chairman*)

#### Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond

Mr. Ho King Fung, Eric

The principal responsibilities of the Nomination Committee include, among other things, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive directors.

### Corporate Governance Committee

The Company has established a corporate governance committee (the “Corporate Governance Committee”) with written terms of reference in compliance with the Code. As at the date of this report, the Corporate Governance Committee consists of the following members:

#### Executive Director

Mr. Se Hok Pan (*Chairman*)

#### Non-executive Director

Mr. Teoh Chun Ming

#### Independent Non-executive Director

Mr. Ho King Fung, Eric

The primary responsibilities of the Corporate Governance Committee include, among other things, developing and reviewing the Company’s policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements, and reviewing the Company’s compliance with the Code.

## Other Information (Continued)

### Purchases, Sale and Redemption of Listed Securities

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### Interim Dividend

The Board did not declare any interim dividend for the six months ended 30 June 2017.

# REVIEW REPORT



## **Review report to the board of directors of Nature Home Holding Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **Introduction**

We have reviewed the interim financial report set out on pages 31 to 68 which comprises the consolidated statement of financial position of Nature Home Holding Company Limited (the “Company”) as of 30 June 2017 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Scope of Review**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## Review Report (Continued)

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

### **KPMG**

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

30 August 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 – unaudited  
(Expressed in Renminbi)

|                                      | Note | Six months ended 30 June |                 |
|--------------------------------------|------|--------------------------|-----------------|
|                                      |      | 2017<br>RMB'000          | 2016<br>RMB'000 |
| <b>Revenue</b>                       | 3    | <b>1,058,483</b>         | 858,997         |
| Cost of sales                        |      | <b>(748,218)</b>         | (612,099)       |
| <b>Gross profit</b>                  |      | <b>310,265</b>           | 246,898         |
| Other income                         | 5(a) | <b>33,862</b>            | 16,578          |
| Distribution costs                   |      | <b>(171,134)</b>         | (140,651)       |
| Administrative expenses              |      | <b>(109,647)</b>         | (108,702)       |
| Other operating expenses             | 5(b) | <b>(18,903)</b>          | (18,422)        |
| <b>Profit/(loss) from operations</b> |      | <b>44,443</b>            | (4,299)         |
| Finance income                       |      | <b>5,196</b>             | 3,554           |
| Finance costs                        |      | <b>(15,855)</b>          | (14,944)        |
| <b>Net finance costs</b>             | 6(a) | <b>(10,659)</b>          | (11,390)        |
| <b>Profit/(loss) before taxation</b> | 6    | <b>33,784</b>            | (15,689)        |
| Income tax                           | 7    | <b>(22,370)</b>          | (9,138)         |
| <b>Profit/(loss) for the period</b>  |      | <b>11,414</b>            | (24,827)        |
| <b>Attributable to:</b>              |      |                          |                 |
| Equity shareholders of the Company   |      | <b>16,459</b>            | (16,186)        |
| Non-controlling interests            |      | <b>(5,045)</b>           | (8,641)         |
| <b>Profit/(loss) for the period</b>  |      | <b>11,414</b>            | (24,827)        |
| <b>Earnings per share (RMB):</b>     |      |                          |                 |
| Basic and diluted                    | 8    | <b>0.011</b>             | (0.011)         |

The notes on pages 39 to 68 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 19.



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited  
(Expressed in Renminbi)

|  | Note | Six months ended 30 June |                 |
|--|------|--------------------------|-----------------|
|  |      | 2017<br>RMB'000          | 2016<br>RMB'000 |
| <b>Profit/(loss) for the period</b>  |      | <b>11,414</b>            | (24,827)        |
| <b>Other comprehensive income for the period (after tax effect)</b>  | 9    |                          |                 |
| Items that may be reclassified subsequently to profit or loss:   |      |                          |                 |
| Exchange differences on translation of the financial statements of entities not using RMB as functional currency |      | <b>(4,340)</b>           | 8,072           |
| Exchange differences reclassified to profit or loss upon disposal and deconsolidation of subsidiaries            |      | —                        | 7,892           |
| Available-for-sale securities: net movement in fair value reserve  |      | <b>2,164</b>             | (13,518)        |
| <b>Total comprehensive income for the period</b>   |      | <b>9,238</b>             | (22,381)        |
| <b>Attributable to:</b>  |      |                          |                 |
| Equity shareholders of the Company   |      | <b>14,805</b>            | (12,048)        |
| Non-controlling interests  |      | <b>(5,567)</b>           | (10,333)        |
| <b>Total comprehensive income for the period</b>   |      | <b>9,238</b>             | (22,381)        |

The notes on pages 39 to 68 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited  
(Expressed in Renminbi)

|  | Note | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|--|------|-------------------------------|-----------------------------------|
| <b>Non-current assets</b>                      |      |                               |                                   |
| Investment properties                          | 10   | 63,015                        | 64,085                            |
| Other property, plant and equipment            | 10   | 774,866                       | 780,725                           |
| Intangible assets                              |      | 15,733                        | 14,529                            |
| Lease prepayments                              | 10   | 170,869                       | 144,549                           |
| Interest in associates                         |      | 20                            | 19                                |
| Other financial assets                         | 11   | 109,358                       | 85,709                            |
| Deposits, prepayments and other receivables    |      | 8,863                         | 33,839                            |
| Deferred tax assets                            |      | 27,563                        | 24,505                            |
|  |      | <b>1,170,287</b>              | 1,147,960                         |
| <b>Current assets</b>                          |      |                               |                                   |
| Inventories                                    | 12   | 464,302                       | 404,077                           |
| Other financial assets                         | 11   | 8,018                         | —                                 |
| Trade and bills receivables                    | 13   | 983,291                       | 1,091,312                         |
| Deposits, prepayments and other receivables    |      | 198,245                       | 170,819                           |
| Restricted deposits                            | 14   | 266,960                       | 256,311                           |
| Cash and cash equivalents                      | 15   | 688,892                       | 618,703                           |
|  |      | <b>2,609,708</b>              | 2,541,222                         |
| <b>Current liabilities</b>                     |      |                               |                                   |
| Trade and bills payables                       | 16   | 601,088                       | 585,152                           |
| Deposits received, accruals and other payables |      | 334,593                       | 313,125                           |
| Bank loans                                     | 17   | 603,841                       | 585,060                           |
| Current taxation                               |      | 21,159                        | 24,536                            |
|  |      | <b>1,560,681</b>              | 1,507,873                         |
| <b>Net current assets</b>                      |      | <b>1,049,027</b>              | 1,033,349                         |
| <b>Total assets less current liabilities</b>   |      | <b>2,219,314</b>              | 2,181,309                         |

## Consolidated Statement of Financial Position (Continued)

At 30 June 2017—unaudited  
(Expressed in Renminbi)

|  | Note | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|--|------|-------------------------------|-----------------------------------|
| <b>Non-current liabilities</b>   |      |                               |                                   |
| Bank loans   | 17   | 90,570                        | 88,510                            |
| Deferred tax liabilities   |      | 10,378                        | 9,760                             |
|  |      | <b>100,948</b>                | <b>98,270</b>                     |
| <b>NET ASSETS</b>  |      |                               |                                   |
|  |      | <b>2,118,366</b>              | <b>2,083,039</b>                  |
| <b>CAPITAL AND RESERVES</b>  |      |                               |                                   |
| Share capital  | 19   | 9,596                         | 9,596                             |
| Reserves   |      | 2,067,915                     | 2,047,511                         |
| <b>Total equity attributable to equity shareholders<br/>of the Company</b> |      | <b>2,077,511</b>              | <b>2,057,107</b>                  |
| <b>Non-controlling interests</b>   |      | <b>40,855</b>                 | <b>25,932</b>                     |
| <b>TOTAL EQUITY</b>  |      | <b>2,118,366</b>              | <b>2,083,039</b>                  |

The notes on pages 39 to 68 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 — unaudited  
(Expressed in Renminbi)

|  | Attributable to equity shareholders of the Company |               |                                       |                            |                           |                  |                    |                |                  |           |                           |              |
|--|--|---------------|---------------------------------------|----------------------------|---------------------------|------------------|--------------------|----------------|------------------|-----------|---------------------------|--------------|
|  | Share capital                                      | Share premium | Share held for the Share Award Scheme | Capital redemption reserve | Statutory surplus reserve | Exchange reserve | Fair value reserve | Other reserves | Retained profits | Total     | Non-controlling interests | Total equity |
|  | RMB'000  | RMB'000       | RMB'000                               | RMB'000                    | RMB'000                   | RMB'000          | RMB'000            | RMB'000        | RMB'000          | RMB'000   | RMB'000                   | RMB'000      |
| <b>Balance at 1 January 2016</b>                               | 9,596  | 1,110,296     | —                                     | 84                         | 183,195                   | (11,741)         | 5,969              | 68,634         | 794,154          | 2,160,187 | 52,526                    | 2,212,713    |
| <b>Changes in equity for the six months ended 30 June 2016</b> |  |               |                                       |                            |                           |                  |                    |                |                  |           |                           |              |
| Loss for the period  | —  | —             | —                                     | —                          | —                         | —                | —                  | —              | (16,186)         | (16,186)  | (8,641)                   | (24,827)     |
| Other comprehensive income                                     | —  | —             | —                                     | —                          | —                         | 17,656           | (13,518)           | —              | —                | 4,138     | (1,692)                   | 2,446        |
| Total comprehensive income                                     | —  | —             | —                                     | —                          | —                         | 17,656           | (13,518)           | —              | (16,186)         | (12,048)  | (10,333)                  | (22,381)     |
| Dividends declared in respect of the current period (note 19)  | —  | (148,018)     | —                                     | —                          | —                         | —                | —                  | —              | —                | (148,018) | —                         | (148,018)    |
| Equity settled share-based transactions (note 18(a))           | —  | —             | —                                     | —                          | —                         | —                | —                  | 665            | —                | 665       | —                         | 665          |
| Share options forfeited during the period                      | —  | —             | —                                     | —                          | —                         | —                | —                  | (187)          | 187              | —         | —                         | —            |
| Equity settled Share Award Scheme (note 18(b))                 | —  | —             | —                                     | —                          | —                         | —                | —                  | 2,042          | —                | 2,042     | —                         | 2,042        |
| Shares purchased for the Share Award Scheme (note 18(b))       | —  | —             | (5,963)                               | —                          | —                         | —                | —                  | —              | —                | (5,963)   | —                         | (5,963)      |
| Contribution from a non-controlling interests holder           | —  | —             | —                                     | —                          | —                         | —                | —                  | —              | —                | —         | 4,700                     | 4,700        |
| Disposal of subsidiaries                                       | —  | —             | —                                     | —                          | (235)                     | —                | —                  | —              | 235              | —         | —                         | —            |
| <b>Balance at 30 June 2016 and 1 July 2016</b>                 | 9,596  | 962,278       | (5,963)                               | 84                         | 182,960                   | 5,915            | (7,549)            | 71,154         | 778,390          | 1,996,865 | 46,893                    | 2,043,758    |

## Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017 — unaudited  
(Expressed in Renminbi)

|  | Attributable to equity shareholders of the Company |                          |   |  |   |                             |                               |                           |                             |                  |                                      |                         |
|--|--|--------------------------|---|--|---|-----------------------------|-------------------------------|---------------------------|-----------------------------|------------------|--------------------------------------|-------------------------|
|  | Share capital<br>RMB'000                           | Share premium<br>RMB'000 | Share held for the<br>Share Award Scheme<br>RMB'000 | Capital redemption<br>reserve<br>RMB'000 | Statutory surplus<br>reserve<br>RMB'000 | Exchange reserve<br>RMB'000 | Fair value reserve<br>RMB'000 | Other reserves<br>RMB'000 | Retained profits<br>RMB'000 | Total<br>RMB'000 | Non-controlling interests<br>RMB'000 | Total equity<br>RMB'000 |
| <b>Balance at 30 June 2016 and 1 July 2016</b>                     | 9,596  | 962,278                  | (5,963)   | 84                                       | 182,960                                 | 5,915                       | (7,549)                       | 71,154                    | 778,390                     | 1,996,865        | 46,893                               | 2,043,758               |
| <b>Changes in equity for the six months ended 31 December 2016</b> |  |                          |   |  |   |                             |                               |                           |                             |                  |                                      |                         |
| Profit for the period  | —  | —                        | —   | —  | —                                       | —                           | —                             | —                         | 54,466                      | 54,466           | (27,817)                             | 26,649                  |
| Other comprehensive income   | —  | —                        | —   | —  | —                                       | 4,910                       | 22,004                        | —                         | —                           | 26,914           | 1,336                                | 28,250                  |
| Total comprehensive income   | —  | —                        | —   | —  | —                                       | 4,910                       | 22,004                        | —                         | 54,466                      | 81,380           | (26,481)                             | 54,899                  |
| Dividends declared in respect of the current year (note 19)        | —  | (1,872)                  | —   | —  | —                                       | —                           | —                             | —                         | —                           | (1,872)          | —                                    | (1,872)                 |
| Transfer to statutory surplus reserve                              | —  | —                        | —   | —  | 7,576                                   | —                           | —                             | —                         | (7,576)                     | —                | —                                    | —                       |
| Equity settled share-based transactions (note 18(a))               | —  | —                        | —   | —  | —                                       | —                           | —                             | 506                       | —                           | 506              | —                                    | 506                     |
| Share options forfeited during the period                          | —  | —                        | —   | —  | —                                       | —                           | —                             | (811)                     | 811                         | —                | —                                    | —                       |
| Equity settled Share Award Scheme (note 18(b))                     | —  | —                        | —   | —  | —                                       | —                           | —                             | 5,534                     | —                           | 5,534            | —                                    | 5,534                   |
| Shares purchased for the Share Award Scheme (note 18(b))           | —  | —                        | (25,306)  | —  | —                                       | —                           | —                             | —                         | —                           | (25,306)         | —                                    | (25,306)                |
| Contribution from a non-controlling interests holder               | —  | —                        | —   | —  | —                                       | —                           | —                             | —                         | —                           | —                | 5,520                                | 5,520                   |
| <b>Balance at 31 December 2016</b>                                 | 9,596  | 960,406                  | (31,269)  | 84                                       | 190,536                                 | 10,825                      | 14,455                        | 76,383                    | 826,091                     | 2,057,107        | 25,932                               | 2,083,039               |

## Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017—unaudited  
(Expressed in Renminbi)

|  | Attributable to equity shareholders of the Company |               |                    |                            |                           |                  |                    |                |                  |           |                           |              |
|--|--|---------------|--------------------|----------------------------|---------------------------|------------------|--------------------|----------------|------------------|-----------|---------------------------|--------------|
|  | Share held for the                                 |               |                    | Capital redemption reserve | Statutory surplus reserve | Exchange reserve | Fair value reserve | Other reserves | Retained profits | Total     | Non-controlling interests | Total equity |
|  | Share capital                                      | Share premium | Share Award Scheme |                            |                           |                  |                    |                |                  |           |                           |              |
|  | RMB'000  | RMB'000       | RMB'000            | RMB'000                    | RMB'000                   | RMB'000          | RMB'000            | RMB'000        | RMB'000          | RMB'000   | RMB'000                   |              |
| <b>Balance at 1 January 2017</b>                               | 9,596  | 960,406       | (31,269)           | 84                         | 190,536                   | 10,825           | 14,455             | 76,383         | 826,091          | 2,057,107 | 25,932                    | 2,083,039    |
| <b>Changes in equity for the six months ended 30 June 2017</b> |  |               |                    |                            |                           |                  |                    |                |                  |           |                           |              |
| Profit for the period  | —  | —             | —                  | —                          | —                         | —                | —                  | —              | 16,459           | 16,459    | (5,045)                   | 11,414       |
| Other comprehensive income                                     | —  | —             | —                  | —                          | —                         | (3,818)          | 2,164              | —              | —                | (1,654)   | (522)                     | (2,176)      |
| Total comprehensive income                                     | —  | —             | —                  | —                          | —                         | (3,818)          | 2,164              | —              | 16,459           | 14,805    | (5,567)                   | 9,238        |
| Share options forfeited during the period                      | —  | —             | —                  | —                          | —                         | —                | —                  | (878)          | 878              | —         | —                         | —            |
| Equity settled Share Award Scheme (note 18(b))                 | —  | —             | —                  | —                          | —                         | —                | —                  | 5,599          | —                | 5,599     | —                         | 5,599        |
| Contribution from non-controlling interests holders            | —  | —             | —                  | —                          | —                         | —                | —                  | —              | —                | —         | 20,490                    | 20,490       |
| <b>Balance at 30 June 2017</b>                                 | 9,596  | 960,406       | (31,269)           | 84                         | 190,536                   | 7,007            | 16,619             | 81,104         | 843,428          | 2,077,511 | 40,855                    | 2,118,366    |

The notes on pages 39 to 68 form part of this interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 — unaudited  
(Expressed in Renminbi)

|  | Six months ended 30 June |                 |
|--|--------------------------|-----------------|
|  | 2017<br>RMB'000          | 2016<br>RMB'000 |
| <b>Operating activities</b>  |                          |                 |
| Cash generated from operations                                     | 128,931                  | 60,828          |
| Income tax paid  | (28,834)                 | (14,676)        |
| <b>Net cash generated from operating activities</b>                | <b>100,097</b>           | 46,152          |
| <b>Investing activities</b>  |                          |                 |
| Payment for the purchase of other property, plant and equipment    | (43,752)                 | (64,685)        |
| Proceeds from disposal of subsidiaries                             | —                        | 80,191          |
| Payment for acquisition of a subsidiary net of cash acquired       | —                        | (44,142)        |
| Other net cash flows (used in)/generated from investing activities | (12,842)                 | 46,836          |
| <b>Net cash (used in)/generated from investing activities</b>      | <b>(56,594)</b>          | 18,200          |
| <b>Financing activities</b>  |                          |                 |
| Proceeds from bank loans   | 184,469                  | 376,263         |
| Repayment of bank loans  | (154,274)                | (297,325)       |
| Deposits placed with banks for loans                               | —                        | (50,000)        |
| Other net cash flows used in financing activities                  | (2,795)                  | (48,301)        |
| <b>Net cash generated from/(used in) financing activities</b>      | <b>27,400</b>            | (19,363)        |
| <b>Net increase in cash and cash equivalents</b>                   | <b>70,903</b>            | 44,989          |
| <b>Cash and cash equivalents at 1 January</b>                      | <b>618,703</b>           | 602,825         |
| <b>Effect of foreign exchanges rates changes</b>                   | <b>(714)</b>             | 1,705           |
| <b>Cash and cash equivalents at 30 June</b>                        | <b>688,892</b>           | 649,519         |

The notes on pages 39 to 68 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

## 1 Basis of Preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 30 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Nature Home Holding Company Limited (the “Company”) and its subsidiaries (together, the “Group”) since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 29 to 30.

## 2 Newly Adopted Accounting Policy and Changes in Accounting Policies

### (a) Newly adopted accounting policy

#### (i) Other investments in debt and equity securities

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments.



## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 2 Newly Adopted Accounting Policy and Changes in Accounting Policies (Continued)

#### (b) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 3 Segment Reporting

The Group manages its business by different lines of businesses and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Manufacturing and sale of home decoration products: this segment manufactures and sells home decoration products.
- Provision of trademark and distribution network: this segment generates fees income from products manufactured by authorised manufacturers which sell products under the Group's trademarks and distribution network.
- Trading of timber and home decoration products: this segment trades timber and home decoration products.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment Reporting (Continued)

#### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of cash and cash equivalents, restricted deposits, interest in associates, other financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and bill payables attributable to the individual segments managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets, impairment of other property, plant and equipment and net impairment losses reversed/(recognised) for trade receivables attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment Reporting (Continued)

#### (a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| For the six months ended<br>30 June  | Manufacturing and<br>sale of home<br>decoration products |                  | Provision of trademark<br>and distribution<br>network |                | Trading of timber and<br>home decoration<br>products |                  | Total            |                  |
|--|--|------------------|---|----------------|--|------------------|------------------|------------------|
|  | 2017   | 2016             | 2017  | 2016           | 2017   | 2016             | 2017             | 2016             |
|  | RMB'000  | RMB'000          | RMB'000   | RMB'000        | RMB'000  | RMB'000          | RMB'000          | RMB'000          |
| Revenue from external<br>customers   | 803,382  | 611,316          | 93,328  | 87,930         | 161,773  | 158,296          | 1,058,483        | 857,542          |
| Inter-segment revenue  | 5,943  | 11,290           | —   | —              | —  | 23,234           | 5,943            | 34,524           |
| <b>Reportable segment<br/>revenue</b>  | <b>809,325</b>   | <b>622,606</b>   | <b>93,328</b>   | <b>87,930</b>  | <b>161,773</b>                                       | <b>181,530</b>   | <b>1,064,426</b> | <b>892,066</b>   |
| <b>Reportable segment<br/>gross profit</b>   | <b>196,912</b>   | <b>158,982</b>   | <b>90,823</b>   | <b>84,065</b>  | <b>22,530</b>  | <b>4,195</b>     | <b>310,265</b>   | <b>247,242</b>   |
| Interest income from bank<br>deposits  | 4,971  | 2,022            | —   | —              | 225  | 34               | 5,196            | 2,056            |
| Interest expense   | (9,429)  | (12,525)         | —   | —              | (1,950)  | (3,138)          | (11,379)         | (15,663)         |
| Depreciation and<br>amortisation for<br>the period   | (35,732)   | (33,891)         | —   | —              | (11,117)   | (1,129)          | (46,849)         | (35,020)         |
| Net impairment losses<br>(recognised)/reversed for<br>trade receivables<br>during the period | (1,863)  | (4,207)          | —   | 148            | (9,157)  | (9,749)          | (11,020)         | (13,808)         |
| <b>As at 30 June/<br/>31 December</b>  |  |                  |   |                |  |                  |                  |                  |
| <b>Reportable segment<br/>assets</b>   | <b>2,352,193</b>   | <b>2,341,046</b> | <b>150,509</b>  | <b>124,894</b> | <b>1,127,229</b>                                     | <b>991,548</b>   | <b>3,629,931</b> | <b>3,457,488</b> |
| Additions to non-current<br>segment assets during<br>the period                              | 46,365   | 146,956          | —   | —              | 1,590  | 9,495            | 47,955           | 156,451          |
| <b>Reportable segment<br/>liabilities</b>  | <b>1,029,406</b>   | <b>835,835</b>   | <b>—</b>  | <b>—</b>       | <b>1,847,877</b>                                     | <b>1,751,884</b> | <b>2,877,283</b> | <b>2,587,719</b> |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment Reporting (Continued)

#### (b) Reconciliations of reportable segment profit or loss

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Reportable segment revenue                              | 1,064,426                | 892,066         |
| Elimination of inter-segment revenue                    | (5,943)                  | (34,524)        |
| Revenue of forestry management segment disposed in 2016 | —                        | 1,455           |
| Consolidated revenue                                    | 1,058,483                | 858,997         |
| Reportable segment gross profit                         | 310,265                  | 247,242         |
| Segment loss of forestry management disposed in 2016    | —                        | (344)           |
| Consolidated gross profit                               | 310,265                  | 246,898         |
| Other income  | 33,862                   | 16,578          |
| Distribution costs                                      | (171,134)                | (140,651)       |
| Administrative expenses                                 | (109,647)                | (108,702)       |
| Other operating expenses                                | (18,903)                 | (18,422)        |
| Net finance costs                                       | (10,659)                 | (11,390)        |
| <b>Consolidated profit/(loss) before taxation</b>       | <b>33,784</b>            | <b>(15,689)</b> |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 3 Segment Reporting (Continued)

#### (c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's investment properties, other property, plant and equipment, intangible assets, lease prepayments and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location of customers. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of investment properties, other property, plant and equipment and lease prepayments, the location of the operation to which they are allocated, in the case of intangible assets and interest in associates.

|                                 | Revenue from external customers<br>for the six months ended 30 June |                 | Specified non-current assets<br>as at 30 June/31 December |                 |
|---------------------------------|---|-----------------|---|-----------------|
|                                 | 2017<br>RMB'000   | 2016<br>RMB'000 | 2017<br>RMB'000   | 2016<br>RMB'000 |
| The PRC, Hong Kong<br>and Macau | 1,016,097   | 766,255         | 965,799   | 935,860         |
| Peru                            | 925   | 24,394          | 57,214  | 66,149          |
| USA                             | 41,461  | 68,348          | 1,490   | 1,898           |
|                                 | 1,058,483   | 858,997         | 1,024,503   | 1,003,907       |

### 4 Revenue and Seasonality of Operations

The principal activities of the Group are manufacturing and sale of home decoration products, provision of trademark and distribution network and trading of timber and home decoration products.

Revenue represents the sales value of goods supplied to customers and income from trademark and distribution network usage fees. Revenue excludes value added tax or other sales taxes and is after deduction of returns.

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues for the six months ended 30 June 2017 (six months ended 30 June 2016: one). In the six month ended 30 June 2017, revenues from sales of home decoration products to this customer amounted to approximately RMB196 million (six months ended 30 June 2016: RMB151 million) and arose only in PRC by geographical region in which the home decoration products division is active.

For the twelve months ended 30 June 2017, the Group reported revenue of RMB2,515,137,000 (twelve months ended 30 June 2016: RMB1,963,696,000), and gross profit of RMB708,302,000 (twelve months ended 30 June 2016: RMB565,313,000).

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 5 Other Income/Other Operating Expenses

#### (a) Other income

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Government grants <sup>(i)</sup>  | 7,192                    | 6,685           |
| Rental income from operating leases   |                          |                 |
| — investment properties (note 10)   | 476                      | 492             |
| — machineries (note 10)   | 6,260                    | 4,282           |
| Change in fair value of financial assets through profit or loss:              |                          |                 |
| — Designated on initial recognition (note 11(b))                              | 15,471                   | —               |
| — Held-for-trading (note 11(c))   | 3,157                    | —               |
| Change in fair value of financial assets at fair value through profit or loss | —                        | 418             |
| Others  | 1,306                    | 4,701           |
|   | <b>33,862</b>            | <b>16,578</b>   |

(i) Government grants for the six months ended 30 June 2017 mainly represented unconditional cash awards and rent free lease granted by the government authorities in the PRC.

#### (b) Other operating expenses

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Impairment losses of available-for-sale equity securities (note 11) | 13,541                   | 1,818           |
| Net unrealised loss of share call options investments               | 2,096                    | —               |
| Net loss on disposal of other property, plant and equipment         | 516                      | 5,330           |
| Net loss on disposal of subsidiaries                                | —                        | 9,765           |
| Donations   | 1,170                    | 1,060           |
| Others  | 1,580                    | 449             |
|   | <b>18,903</b>            | <b>18,422</b>   |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 6 Profit/(Loss) Before Taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

#### (a) Finance income and finance costs

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Interest income on bank deposits                                  | (5,196)                  | (2,056)         |
| Net foreign exchange gain   | —                        | (1,498)         |
| Finance income  | (5,196)                  | (3,554)         |
| Interest expense on bank loans                                    | 15,205                   | 16,363          |
| Less: interest expense capitalised into construction in progress* | (2,570)                  | (1,419)         |
|   | 12,635                   | 14,944          |
| Net foreign exchange loss   | 3,220                    | —               |
| Finance costs   | 15,855                   | 14,944          |
| Net finance costs recognised in profit or loss                    | 10,659                   | 11,390          |

\* The borrowing costs have been capitalised at a rate of 5.880–6.370% per annum for the six months ended 30 June 2017 and 2016.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 6 Profit/(Loss) Before Taxation (Continued)

#### (b) Other items

|   | Note  | Six months ended 30 June |                 |
|---|-------|--------------------------|-----------------|
|   |       | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Cost of inventories                     | 12    | 745,713                  | 608,263         |
| Impairment losses recognised            |       |                          |                 |
| – trade and other receivables           |       | 11,020                   | 13,808          |
| Depreciation                            |       | 43,966                   | 32,729          |
| Amortisation                            |       | 2,883                    | 2,291           |
| Operating lease charges:                |       |                          |                 |
| – minimum lease payments                |       | 11,983                   | 11,743          |
| Equity settled share-based transactions |       |                          |                 |
| – Share Option Schemes                  | 18(a) | –                        | 665             |
| – Share Award Scheme                    | 18(b) | 5,599                    | 2,042           |

### 7 Income Tax

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| <b>Current tax</b>                                |                          |                 |
| Provision for income tax                          |                          |                 |
| – in the PRC                                      | 24,950                   | 16,320          |
| – other jurisdictions                             | –                        | 567             |
| Under-provision in respect of prior years         | 582                      | –               |
|   | 25,532                   | 16,887          |
| <b>Deferred tax</b>                               |                          |                 |
| Origination and reversal of temporary differences | (3,162)                  | (7,749)         |
|   | 22,370                   | 9,138           |



## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 7 Income Tax (Continued)

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The Group's subsidiaries incorporated in the USA were subject to federal income tax at progressive rates from 15% to 35% and state income tax for the six months ended 30 June 2017 and 2016.
- (iii) The Group's subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2017 and 2016.
- (iv) The Group's subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the six months ended 30 June 2017 and 2016 is calculated at the rate of 12%, of which assessable profits of the first MOP300,000 is exempted from tax.
- (v) The Group's subsidiaries incorporated in Peru were subject to income tax rates from 5% to 27% for the six months ended 30 June 2017 (six months ended 30 June 2016: 5% to 28%).
- (vi) The statutory income tax rate applicable to the Group's subsidiaries in mainland China is 25% for the six months ended 30 June 2017 and 2016.
- (vii) Guangxi Baijing Flooring Co., Ltd ("Guangxi Baijing") is recognised as qualified enterprise located in the western region of the PRC and enjoys preferential enterprise income tax rate of 15% from 2016 to 2020, pursuant to CaiShui [2011] No. 58. In addition, 40% of income tax that has to pay to local taxation bureau is exempted as agreed by the local taxation bureau. The effective PRC income tax rate applicable to Guangxi Baijing is 9% for the six month ended 30 June 2017 and 2016.
- (viii) At 30 June 2017, deferred tax liabilities in respect of the dividend withholding tax relating to the undistributed profits of the Company's subsidiaries were not recognised as the Company controls the dividend policy of these subsidiaries. Based on the assessment made by management as at the end of each reporting period, it was determined that the undistributed profits of the Company's subsidiaries would not be distributed in the foreseeable future. The amounts of undistributed profit of the Company's subsidiaries are set out below:

|   | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|---|-------------------------------|-----------------------------------|
| Distributable profits earned by PRC subsidiaries on or after 1 January 2008 | <b>1,302,642</b>              | 1,216,519                         |

As all of the Company's PRC subsidiaries are directly or indirectly owned by a Hong Kong or Macau incorporated subsidiary which is a qualified tax resident, a rate of 5% is applicable to the PRC dividend withholding tax. Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 4.1%.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 8 Earnings Per Share

#### (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit/(loss) attributable to equity shareholders of the Company of RMB16,459,000 (six months ended 30 June 2016: loss of RMB16,186,000) and the weighted average of 1,439,238,000 ordinary shares (six months ended 30 June 2016: 1,468,066,000) in issue during the interim period.

#### Weighted average number of ordinary shares

|   | Six months ended 30 June |              |
|---|--------------------------|--------------|
|   | 2017<br>'000             | 2016<br>'000 |
| Issued ordinary shares at 1 January                       | 1,468,238                | 1,468,238    |
| Effect of purchase of shares under the Share Award Scheme | (29,000)                 | (172)        |
| Weighted average number of ordinary shares at 30 June     | 1,439,238                | 1,468,066    |

#### (b) Diluted earnings per share

For the periods ended 30 June 2017 and 2016, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings per share were the same as the basic earnings per share.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 9 Other Comprehensive Income

|  | Six months ended 30 June 2017 |                |                      | Six months ended 30 June 2016 |                |                      |
|--|-------------------------------|----------------|----------------------|-------------------------------|----------------|----------------------|
|  | Before-tax<br>amount          | Tax<br>expense | Net-of-tax<br>amount | Before-tax<br>amount          | Tax<br>expense | Net-of-tax<br>amount |
|  | RMB'000                       | RMB'000        | RMB'000              | RMB'000                       | RMB'000        | RMB'000              |
| Exchange differences on translation of the financial statements of entities not using RMB as functional currency | (4,340)                       | —              | (4,340)              | 8,072                         | —              | 8,072                |
| Exchange differences reclassified to profit or loss upon disposal and deconsolidation of subsidiaries            | —                             | —              | —                    | 7,892                         | —              | 7,892                |
| Net movement in fair value reserve of available-for-sale securities  | 2,886                         | (722)          | 2,164                | (14,781)                      | 1,263          | (13,518)             |
| Other comprehensive income   | (1,454)                       | (722)          | (2,176)              | 1,183                         | 1,263          | 2,446                |

### 10 Investment Properties, Other Property, Plant and Equipment and Lease Prepayments

During the six months ended 30 June 2017, the Group acquired items of plant and machinery with a cost of RMB41,064,000 (six months ended 30 June 2016: RMB83,260,000) and a lease prepayment with a cost of RMB27,800,000 (six months ended 30 June 2016: RMB9,487,000). As at 30 June 2017, investment property, other property, plant and equipment and lease prepayments with carrying amount of RMB5,637,000, RMB144,234,000 and RMB74,923,000 respectively were pledged for bank loans (note 17).

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 11 Other Financial Assets

|  | Ref | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|--|-----|-------------------------------|-----------------------------------|
| Other non-current financial assets:                                    |     |                               |                                   |
| Available for sales financial assets                                   |     |                               |                                   |
| – Unlisted   | (a) | 26,648                        | 23,579                            |
| – Listed   |     | 52,040                        | 62,130                            |
| Designated as at fair value through profit or loss<br>financial assets |     |                               |                                   |
| – Convertible notes  | (b) | 30,670                        | —                                 |
|  |     | 109,358                       | 85,709                            |
| Other current financial assets:  |     |                               |                                   |
| Held-for-trading   |     |                               |                                   |
| – Warrants   | (c) | 8,018                         | —                                 |
|  |     | 117,376                       | 85,709                            |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 11 Other Financial Assets (Continued)

#### (a) Available for sale equity securities:

|  | Equity securities |            |          |          |
|--|-------------------|------------|----------|----------|
|  | Listed            |            | Unlisted | Total    |
|  | In China          | In Germany |          |          |
| RMB'000  | RMB'000           | RMB'000    | RMB'000  |          |
| Balance at 1 January 2017                                    | 44,319            | 17,811     | 23,579   | 85,709   |
| Additions (i)  | —                 | —          | 3,475    | 3,475    |
| Change in fair value recognised (ii)                         |                   |            |          |          |
| — in other comprehensive income                              | 2,886             | —          | —        | 2,886    |
| Impairment recognised directly in profit or loss (note 5(b)) | —                 | (13,541)   | —        | (13,541) |
| Disposals  | —                 | —          | (300)    | (300)    |
| Effect of movements in exchange rate                         | —                 | 565        | (106)    | 459      |
| Balance at 30 June 2017                                      | 47,205            | 4,835      | 26,648   | 78,688   |

#### (i) Additions

During the six months ended 30 June 2017, the Group increased its investment in two entities by RMB3,475,000. One of these entities provide internet agency services for entities to sell furniture and building materials or provide decoration services to customers. The other runs internet information service and online sales of decoration materials.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 11 Other Financial Assets (Continued)

#### (a) Available for sale equity securities: (Continued)

##### (ii) Net change in fair value recognised

###### *In other comprehensive income*

The fair value measurement for available-for-sale listed equity securities has been categorised as Level 1 fair value: unadjusted quoted price in active markets for identical assets or liabilities at the measurement date, as defined in IFRS 13, *Fair value measurement*. During the six months ended 30 June 2017, there were no transfers between Level 2 and Level 3, or transfer into or out of Level 1.

###### *Impairment losses*

For available-for-sale listed equity securities, the cumulative loss is classified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss (see note 5 (b)).

The impairment losses for available-for-sale unlisted equity securities were measured as the difference between the carrying amount of the investment cost and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Impairment losses on these investments were recognised in profit or loss.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 11 Other Financial Assets (Continued)

#### (b) Convertible notes

As at 30 June 2017, the Group purchased convertible notes and warrants issued by an entity for a consideration of USD3,000,000 (approximately RMB20,568,000), which is settled by cash of USD1,145,000 (approximately RMB7,850,000) and trade receivables due from the entity of USD1,855,000 (approximately RMB12,718,000). The convertible notes will mature on 31 October 2018 (the "Maturity date"). The sum of principal amount and accrued interest, at an interest rate of 14% per annum, will be repaid until the Maturity date or converted into equity securities according to the terms of convertible notes agreement. According to the related agreements, the convertible notes will automatically and concurrently be converted into shares or other securities in capital (collectively the "equity securities") with 30% discount on the issued price, when the entity issues the equity securities to raise gross proceeds over USD30,000,000. The entity has negotiated with third-party investors to issue preferred shares (the "preferred shares") at USD2.18 per share, to raise USD30,000,000 on 7 July 2017, which triggered the conversions of convertible notes automatically. The conversion are expected to be complete in September 2017, at a price of USD1.52 per share.

The fair value of convertible notes as at 30 June 2017 was RMB30,670,000, which is based on the price of the preferred shares.

Changes in fair value of convertible notes amounted to RMB15,471,000 was credited to profit or loss account for the six months ended 30 June 2017.

#### (c) Warrants

Together with the convertible notes, the Group held 545,455 warrants to purchase common shares of the entity at USD0.01 per common share with the expiry date on 3 February 2022. The warrants were non-derivative financial assets and have been classified to held-for-trading.

The fair value of warrants as at 30 June 2017 was RMB8,018,000, which is based on the price of the preferred shares.

Changes in fair value of warrants amounted to RMB3,157,000 was credited to profit or loss account for the six months ended 30 June 2017.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 12 Inventories

|                             | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|-----------------------------|-------------------------------|-----------------------------------|
| Raw materials               | 54,367                        | 43,579                            |
| Work in progress            | 42,154                        | 40,020                            |
| Finished goods              | 336,097                       | 291,360                           |
| Spare parts and consumables | 31,684                        | 29,118                            |
|                             | <b>464,302</b>                | 404,077                           |

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

|                                     | Six months ended 30 June |                 |
|-------------------------------------|--------------------------|-----------------|
|                                     | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Carrying amount of inventories sold | 720,087                  | 573,456         |
| Write down of inventories           | 25,626                   | 34,807          |
|                                     | <b>745,713</b>           | 608,263         |



## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 13 Trade and Bills Receivables

As of the end of the reporting period, the aging analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

|                | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|----------------|-------------------------------|-----------------------------------|
| Within 1 month | 299,165                       | 299,901                           |
| 1 to 3 months  | 221,762                       | 283,354                           |
| 3 to 6 months  | 149,895                       | 386,163                           |
| 6 to 12 months | 243,970                       | 40,401                            |
| Over 12 months | 68,499                        | 81,493                            |
|                | <b>983,291</b>                | 1,091,312                         |

Credit terms granted by the Group to customers generally range from 30 to 180 days.

As at 30 June 2017, trade debtors of RMB229,500,000 (31 December 2016: RMB229,500,000) and bills receivable of RMB30,000,000 (31 December 2016: RMB30,000,000) were pledged to banks to secure bank loans obtained by the Group (note 17).

As at 30 June 2017, the Group's trade receivables of RMB106,333,000 (31 December 2016: RMB122,428,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB81,093,000 as at 30 June 2017 were recognised (31 December 2016: RMB71,736,000).

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 14 Restricted Deposits

At the end of the reporting period, the deposits have been placed with banks as securities for the followings:

|                     | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|---------------------|-------------------------------|-----------------------------------|
| Bank loan (note 17) | 166,470                       | 165,000                           |
| Others              | 100,490                       | 91,311                            |
|                     | <b>266,960</b>                | 256,311                           |

Others mainly represented deposits placed in the financial institutions in the PRC for security of certain sales contracts and bidding transactions as required by the counter parties.

### 15 Cash and Cash Equivalents

|                          | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|--------------------------|-------------------------------|-----------------------------------|
| Cash at bank and in hand | 688,892                       | 618,703                           |

At 30 June 2017, cash and cash equivalents placed with banks in mainland China amounted to RMB629,537,000 (31 December 2016: RMB524,779,000). Remittance of funds out of mainland China is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 16 Trade and Bills Payables

As of the end of the reporting period, the aging analysis of trade creditors and bills payable, based on the invoice date, is as follows:

|                | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|----------------|-------------------------------|-----------------------------------|
| Within 1 month | 223,195                       | 233,695                           |
| 1 to 3 months  | 175,274                       | 128,472                           |
| 3 to 6 months  | 87,540                        | 143,076                           |
| 6 to 12 months | 79,313                        | 53,482                            |
| Over 12 months | 35,766                        | 26,427                            |
|                | <b>601,088</b>                | <b>585,152</b>                    |

### 17 Bank Loans

At 30 June 2017, the bank loans were repayable as follows:

|                                 | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|---------------------------------|-------------------------------|-----------------------------------|
| Within 1 year or on demand      | 603,841                       | 585,060                           |
| After 1 year but within 2 years | —                             | 19,500                            |
| After 5 years                   | 90,570                        | 69,010                            |
| Sub-total                       | 90,570                        | 88,510                            |
| Total                           | <b>694,411</b>                | <b>673,570</b>                    |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 17 Bank Loans (Continued)

An analysis of secured and unsecured bank loans is as follows:

|                     | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|---------------------|-------------------------------|-----------------------------------|
| <b>Current:</b>     |                               |                                   |
| Secured (note (i))  | 516,178                       | 457,421                           |
| Unsecured           | 87,663                        | 127,639                           |
|                     | <b>603,841</b>                | 585,060                           |
| <b>Non-current:</b> |                               |                                   |
| Secured (note (i))  | 90,570                        | 88,510                            |
|                     | <b>90,570</b>                 | 88,510                            |
|                     | <b>694,411</b>                | 673,570                           |

Notes:

- (i) At 30 June 2017, the Group has secured loans and borrowings amounting to approximately RMB606,748,000 (31 December 2016: RMB545,931,000), of which:
- approximately RMB66,500,000 (31 December 2016: RMB69,500,000) of these secured loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantee;
  - approximately RMB494,678,000 (31 December 2016: RMB452,421,000) of the Group (the "collateral loans") were solely secured by assets of the Group;
  - approximately RMB45,570,000 (31 December 2016: RMB24,010,000) were solely guaranteed by the third parties on the joint and several guarantee.

These third party guarantors included minority shareholders of a subsidiary and a debtor.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 17 Bank Loans (Continued)

Notes: (Continued)

(ii) The pledged assets of the Group are as following:

|   | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|---|-------------------------------|-----------------------------------|
| Restricted deposits (note 14)                 | 166,470                       | 165,000                           |
| Other property, plant and equipment (note 10) | 144,234                       | 148,200                           |
| Investment properties (note 10)               | 5,637                         | 5,590                             |
| Lease prepayments (note 10)                   | 74,923                        | 75,225                            |
| Trade and bills receivables (note 13)         | 259,500                       | 259,500                           |
|   | <b>650,764</b>                | 653,515                           |

(iii) Parts of the Group's banking facilities, amounted to RMB626,741,000 (31 December 2016: RMB709,400,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2016 and 30 June 2017, none of the covenants relating to drawn down facilities had been breached.

(iv) The unutilised banking facilities as at 30 June 2017 amounted to RMB99,649,000 (31 December 2016: RMB161,098,000).

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 18 Equity Settled Share-based Transactions

#### (a) Share option schemes

The Company has two share option schemes which were adopted on 16 December 2008 (“Pre-IPO Plan”) and 3 May 2011 (“Post-IPO Plan”) respectively whereby the directors of the Company are authorised at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at a consideration of HKD1 to the subscribe for shares of the Company. Each option entitles the option holders to subscribe one ordinary share of the Company.

| Plans                         | Date of grant    | Batch    | Numbers of options granted | Vesting period                       | Exercise price (HKD) | Contractual life of options | Remaining contractual life |
|-------------------------------|------------------|----------|----------------------------|--------------------------------------|----------------------|-----------------------------|----------------------------|
| Options granted to employees: |                  |          |                            |                                      |                      |                             |                            |
| Pre-IPO Plan                  | 17 December 2008 | Batch 1  | 2,512,301                  | 17 December 2008 to 30 December 2008 | 2.35                 | 10 years                    | 1.46 years                 |
|                               | 17 December 2008 | Batch 2  | 2,512,301                  | 17 December 2008 to 30 December 2009 | 2.35                 | 10 years                    | 1.46 years                 |
|                               | 17 December 2008 | Batch 3  | 5,024,602                  | 17 December 2008 to 30 December 2011 | 2.35                 | 10 years                    | 1.46 years                 |
|                               | 17 December 2008 | Batch 4  | 7,536,903                  | 17 December 2008 to 30 December 2012 | 2.35                 | 10 years                    | 1.46 years                 |
|                               | 17 December 2008 | Batch 5  | 7,536,903                  | 17 December 2008 to 30 December 2013 | 2.35                 | 10 years                    | 1.46 years                 |
|                               | 1 July 2010      | Batch 6  | 1,200,000                  | 1 July 2010 to 30 December 2010      | 3.38                 | 10 years                    | 3 years                    |
|                               | 1 July 2010      | Batch 7  | 3,600,000                  | 1 July 2010 to 30 December 2011      | 3.38                 | 10 years                    | 3 years                    |
|                               | 1 July 2010      | Batch 8  | 3,600,000                  | 1 July 2010 to 30 December 2012      | 3.38                 | 10 years                    | 3 years                    |
|                               | 1 July 2010      | Batch 9  | 3,600,000                  | 1 July 2010 to 30 December 2013      | 3.38                 | 10 years                    | 3 years                    |
| Post-IPO Plan                 | 4 January 2012   | Batch 10 | 58,000,000                 | 4 January 2012 to 4 January 2015     | 1.45                 | 10 years                    | 4.52 years                 |
|                               | 8 October 2013   | Batch 11 | 31,500,000                 | 8 October 2013 to 8 October 2016     | 1.61                 | 10 years                    | 6.28 years                 |
| Options granted to directors: |                  |          |                            |                                      |                      |                             |                            |
| Post-IPO Plan                 | 4 January 2012   | Batch 10 | 10,000,000                 | 4 January 2012 to 4 January 2015     | 1.45                 | 10 years                    | 4.52 years                 |
|                               |                  |          | Total                      | 136,623,010                          |                      |                             |                            |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 18 Equity Settled Share-based Transactions (Continued)

#### (a) Share option schemes (Continued)

The number and weighted average exercise prices of share options are as follows:

|  | Six months ended 30 June            |                        |                                     |                        |
|--|-------------------------------------|------------------------|-------------------------------------|------------------------|
|  | 2017                                |                        | 2016                                |                        |
|  | Weighted average exercise price HKD | Number of options '000 | Weighted average exercise price HKD | Number of options '000 |
| Outstanding at the beginning of the period | 1.79                                | 111,811                | 1.78                                | 116,156                |
| Forfeited during the period                | 1.65                                | (1,478)                | 1.67                                | (3,241)                |
| Outstanding at the end of the period       | 1.79                                | 110,333                | 1.79                                | 112,915                |
| Exercisable at the end of the period       | 1.79                                | 110,333                | 1.82                                | 93,115                 |

The share options outstanding at 30 June 2017 and 31 December 2016 had an exercise price of HK\$1.45–3.38 and a weighted-average remaining contractual life of 4.2 years (31 December 2016: 4.7 years). No options were exercised during the six months ended 30 June 2017 and 2016.

During the six months ended 30 June 2017, the Group reversed RMB878,000 (six months ended 30 June 2016: RMB187,000) in respect of forfeited share options from several resigned staffs.

#### (b) Share Award Scheme

On 25 April 2016, the board of directors of the Company approved the adoption of a Share Award Scheme (the “Share Award Scheme”) under which shares of the Company (the “Awarded Shares”) are awarded to selected employees of the Group in accordance with the provisions of the Share Award Scheme.

The shares to be awarded under the Share Award Scheme are acquired by the independent trustee from the open market out of cash contributed by the Group and held in trust for the relevant selected employees until such shares are vested with the relevant selected employees in accordance with the provisions of the Share Award Scheme.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 18 Equity Settled Share-Based Transactions (Continued)

#### (b) Share Award Scheme (Continued)

The board of directors shall not make any further award which will result in the aggregate number of Awarded Shares awarded by the board throughout the duration of the Share Award Scheme to exceed 5% of the total number of issued shares of the Company from time to time. The number of the Awarded Shares awarded to each of selected employees shall not exceed 1% of the total number of issued shares from time to time.

When a selected employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the board of directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

Subject to any early termination as may be determined by the board of directors, the Share Award Scheme shall be valid and effective for a term of 4 years commencing on 25 April 2016. The Company granted 29,000,000 Award Shares, value of which is RMB31,269,000, to 25 selected employees, including two directors of the Company, under the Share Award Scheme during the six-month ended 30 June 2016.

The Group recognised share award expenses of RMB5,599,000 during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB2,042,000) with a corresponding increase in a capital reserve within equity in accordance with below accounting policy adopted for share-based payments.

### 19 Dividends

The Board has resolved not to declare any interim dividends for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).



## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 20 Financial Risk Management and Fair Values

#### (a) Financial instruments carried at fair value

##### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 20 Financial Risk Management and Fair Values (Continued)

#### (a) Financial instruments carried at fair value (Continued)

##### (i) Fair value hierarchy (Continued)

|  | Fair value measurements as at |                  |         |         | Fair value<br>at 31 December | Fair value measurements as at |         |         |
|--|-------------------------------|------------------|---------|---------|------------------------------|-------------------------------|---------|---------|
|  | Fair value<br>at 30 June      | 30 June 2017     |         |         |                              | 31 December 2016              |         |         |
|  |                               | categorised into |         |         |                              | categorised into              |         |         |
|  | 2017                          | Level 1          | Level 2 | Level 3 | 2016                         | Level 1                       | Level 2 | Level 3 |
|  | RMB'000                       | RMB'000          | RMB'000 | RMB'000 | RMB'000                      | RMB'000                       | RMB'000 | RMB'000 |
| <b>Recurring fair value measurements</b>               |                               |                  |         |         |                              |                               |         |         |
| <i>Assets:</i>   |                               |                  |         |         |                              |                               |         |         |
| Listed available-for-sale equity securities (note 11): | 52,040                        | 52,040           | —       | —       | 62,130                       | 62,130                        | —       | —       |
| Derivative financial instruments:                      |                               |                  |         |         |                              |                               |         |         |
| — Share call option                                    | —                             | —                | —       | —       | 2,121                        | —                             | —       | 2,121   |
| — Convertible notes (note 11(b))                       | 30,670                        | —                | —       | 30,670  | —                            | —                             | —       | —       |
| Held-for-trading                                       |                               |                  |         |         |                              |                               |         |         |
| — Warrants (note 11(c))                                | 8,018                         | —                | —       | 8,018   | —                            | —                             | —       | —       |

During the six months ended 30 June 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 20 Financial Risk Management and Fair Values (Continued)

#### (a) Financial instruments carried at fair value (Continued)

##### (i) Fair value hierarchy (Continued)

Information about Level 3 fair value measurements

|                                | Valuation techniques   | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|--------------------------------|--|---------------------------------|---|
|                                |  |                                 |   |
| Convertible notes and Warrants | Market Comparison:<br>The fair value is estimated considering current or recent quoted prices for identical securities in markets that are not active. | Not applicable                  | Not applicable  |

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

|  | Share call option | Convertible notes | Warrants | Total  |
|--|-------------------|-------------------|----------|--------|
| Balance as at 1 January and 1 July 2016  | —                 | —                 | —        | —      |
| Changes in fair value recognised in profit or loss during the period   | 2,121             | —                 | —        | 2,121  |
| At 31 December 2016 and 1 January 2017   | 2,121             | —                 | —        | 2,121  |
| Payment for purchases  | —                 | 15,603            | 4,965    | 20,568 |
| Changes in fair value recognised in profit or loss during the period   | (2,096)           | 15,471            | 3,157    | 16,532 |
| Effect of movements in exchange rate   | (25)              | (404)             | (104)    | (533)  |
| At 30 June 2017  | —                 | 30,670            | 8,018    | 38,688 |
| Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period | (2,096)           | 15,471            | 3,157    | 16,532 |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 20 Financial Risk Management and Fair Values (Continued)

#### (b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost are not materially different from their fair values as at 31 December 2016 and 30 June 2017.

### 21 Commitments

#### (a) Capital commitments

Capital commitments outstanding at the end of reporting period not provided for in the interim financial report are as follows:

|                | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|----------------|-------------------------------|-----------------------------------|
| Contracted for | 17,050                        | 23,661                            |

#### (b) Operating lease commitments

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

|                                  | At 30 June<br>2017<br>RMB'000 | At 31 December<br>2016<br>RMB'000 |
|----------------------------------|-------------------------------|-----------------------------------|
| Within 1 year                    | 19,761                        | 21,674                            |
| After 1 year but within 3 years  | 17,772                        | 25,733                            |
| After 3 years but within 5 years | 9,151                         | 6,882                             |
| After 5 years                    | 3,944                         | 4,236                             |
|                                  | <b>50,628</b>                 | <b>58,525</b>                     |

## Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi unless otherwise indicated)

### 22 Material Related Party Transactions

The details of material related party transactions are as follows:

#### Key management personnel compensation

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

|   | Six months ended 30 June |                 |
|---|--------------------------|-----------------|
|   | 2017<br>RMB'000          | 2016<br>RMB'000 |
| Short-term employee benefits                | 4,703                    | 5,209           |
| Post-employment benefits                    | 13                       | 19              |
| Equity-settled share-based payment expenses | 772                      | 282             |
|   | <b>5,488</b>             | <b>5,510</b>    |

### 23 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Six Months Ended 30 June 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group disclosed the possible impact of the following new standards which may have a significant impact on the Group's consolidated financial statements in 2016 annual financial statement:

|   | Effective for<br>accounting periods<br>beginning on or after |
|---|--|
| IFRS 9, <i>Financial instruments</i>                  | 1 January 2018   |
| IFRS 15, <i>Revenue from contracts with customers</i> | 1 January 2018   |
| IFRS 16, <i>Leases</i>                                | 1 January 2019   |

During the six months ended 30 June 2017, the Group is in the process of making an assessment of the impact of the new standard is expected to be in the period of initial application. As the Group has not completed its assessment, further impacts may be identified in due course.