Wood Optimization

CHINA WOOD OPTIMIZATION (HOLDING) LIMITED

中 國 優 材 （ 控 股 ） 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1885

ANNUAL REPORT 2017

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Ms. Yim Tsun *(Chairlady)*
Mr. Li Li *(Chief Executive Officer)*

Independent non-executive Directors
Mr. Zhang Dali
Mr. Pu Junwen
Mr. Lau Ying Kit

AUDIT COMMITTEE

Mr. Lau Ying Kit (Chairman)
Mr. Zhang Dali
Mr. Pu Junwen

REMUNERATION COMMITTEE

Mr. Pu Junwen (Chairman)
Mr. Li Li
Mr. Zhang Dali

NOMINATION COMMITTEE

Mr. Zhang Dali (Chairman)
Mr. Li Li
Mr. Pu Junwen

COMPANY SECRETARY

Ms. Ho Wing Yan *ACIS ACS (PE)*

AUTHORISED REPRESENTATIVES

Ms. Yim Tsun
Ms. Ho Wing Yan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 9 Yimin River East Road
Wei Zhou Industrial Area
Wei County
Handan City
Hebei Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2204, 22/F
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited, Wei County Branch
Bank of Communications Co., Ltd., Handan Branch
Bank of Hebei Co., Ltd., Handan Branch

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

COMPLIANCE ADVISER

Guotai Junan Capital Limited

AUDITORS

KPMG

SHARE REGISTRARS

Cayman Islands Share Registrar and Transfer Office

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04,
33/F., Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

STOCK CODE

1885

COMPANY'S WEBSITE

http://www.chinawood.com.hk

Corporate Profile

China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the processing, manufacturing and sale of Processed Wood Panels (as defined in the Management Discussion and Analysis ("MD&A") section of this annual report) and Processed Finger Joint Wood Panels (as defined in the MD&A section) (collectively, the "Processed Wood Products") and rendering of Wood Processing Procedure service (as defined in the MD&A section).

The Group commenced its production and sale of its Processed Wood Panels and Processed Finger Joint Wood Panels in 2010 and 2011, respectively. In July 2016, the Group was accredited with ISO9001:2015 and ISO14001:2015. The Group commenced to render the Wood Processing Procedure service to its customers in October 2016.

The Group is currently operating two production plants located in Handan City, Hebei Province and Huai'an City, Jiangsu Province, the PRC respectively. In 2015, the Group's subsidiary located in Handan City was recognised again as a High and New Technology Enterprise (高新技術企業) for a term of another three calendar years from 2015 to 2017. The subsidiary located in Huai'an City has obtained the High and New Technology Enterprise Certificate in 2017, which is valid for a term of three calendar years from 2017 to 2019.

Financial Highlights

The following is a summary of the published results of the Group for the last five financial years.

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**238,330**	486,497	609,880	512,736	481,285
Gross profit	**144,403**	145,369	154,155	134,791	141,020
Gross profit margin (%)	**60.6**	29.9	25.3	26.3	29.3
Profit attributable to equity shareholders of the Company	**56,436**	70,193	75,113	63,728	53,129

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**345,646**	388,213	379,673	209,204	226,561
Total current assets	**422,013**	363,356	280,746	312,138	183,970
Total current liabilities	**(99,785)**	(68,959)	(97,568)	(67,921)	(181,219)
Net current assets	**322,228**	294,397	183,178	244,217	2,751
Non-current liabilities	**(31,835)**	(84,878)	(35,448)	(4,700)	(28,000)
Equity attributable to equity shareholders of the Company	**636,039**	597,732	527,403	448,721	201,312

Chairlady's Statement

To all shareholders,

I am pleased to present the annual report of the Group for the financial year ended 31 December 2017 on behalf of the board (the "Board") of directors (the "Directors") of the Group.

OVERVIEW

Looking back to last year, the Group continued to improve its business transformation process. From the past, the main business of production and sale of Processed Wood Products was gradually changed to render wood processing services as the main business, in order to enhance the core technical value of the Group's wood optimization. During the transformation process, production equipment and production processes need to be upgraded and adjusted to some extent, and the upgrade and adjustment process is basically completed. In the future, the Group would be more focused on the development of wood processing services business. In addition, the Group was also awarded the 2017 年度國家科學技術進步獎二等獎 (the 2017 State Science and Technology Improvement Award (Second Class)*). The award was a high recognition for the Group's strength of research and development and marketization of product technology applications.

BUSINESS AND OPERATION REVIEW

Last year, the Group continued to actively promote the use of high value wood utilization of plantation timber. In order to make the processed wood go to the market faster and wider, the Group's business shifted from the production and sale of Processed Wood Products to the rendering of wood processing services to customers. After more than one year of operation, the Group's business is progressing smoothly. In addition, in order to reduce air pollution, the Group actively responded to the environmental policies with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》), implemented by the Chinese government. The Group's production base in Wei County, Handan City, Hebei Province, has dismantled coal-fired boilers and was negotiating with the local government to lay natural gas pipelines and switch to gas boilers. Although the change would have an impact on the Group's Hebei plant, protecting the environment is the Group's primary social responsibility and we are indispensable.

As a High and New Technology Enterprise, the Group constantly strives to optimize product quality while improving impregnation fluids and production technology. Last year, through the unremitting efforts of the research and development department, a total of 14 patents were granted. In the future, the Group will continue to strengthen the research and development of its products and impregnating fluid technologies, increase the efficiency of existing production technologies, and further consolidate the Group's processed wood product technology and market leading position. The Group's optimized core technology won the 2017年度國家科學技術進步獎二等獎 (the 2017 State Science and Technology Improvement Award (Second Class)*), which indicates that the Group has achieved another important result in the field of modern wood optimization, and is also a concentrated expression of corporate technology research strength and industry influence. The Board believes that the award will encourage the Group to continue to practice the world's leading environmental protection production philosophy and become the leading company in the wood optimization industry. In addition, the Group's second production base, Jiangsu AMS Wood Industry Company Limited was also recognized as a national High and New Technology Enterprise in December 2017. This will further stimulate the enthusiasm of independent innovation of enterprises and improve the ability of scientific and technological innovation.

* *The English name is for identification purpose only*

Chairlady's Statement

As the first listed company with the largest development scale in the field of wood optimization, the Group has not only improved its own research and development level and production and sales, but also continued to actively support and participate in technical research related activities in the timber industry, to promote the use of optimized wood in the market faster and wider.

PROSPECTS

Looking ahead, we will continue to work hard on the basis of the achievements made at the existing stage and look for new business development opportunities while also aiming to increase the Group's revenue and market shares. In addition, the Group will continue to increase its efforts to provide timber optimization process technology services, improve existing technologies and research and development capabilities, and, when appropriate, build its own impregnation fluid processing plant and expand its production capacity.

APPRECIATION

I would like to express my gratitude to the management team and all the passionate staff of the Group for their efforts and contributions in the implementation of the Group's development strategy and business operation over the past year. Also, I would like to thank our loyal new and existing customers and business partners as well as all shareholders for their support and trust. The Group's vision is to promote the public to consciously protect the natural and ecological environment, reduce deforestation and cherish the fascinating primary forest. I believe that through our joint efforts, this beautiful vision will be gradually realised.

Yim Tsun
Chairlady of the Board

28 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2017, the Group continued the business of processing, manufacturing and sale of less-shaved Processed Wood Panels (as defined below) and to provide Wood Processing Procedure service (as defined below) to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customers for their poplar wood panels at a fee. As the impregnation fluid and Wood Processing Procedure of the Group contain its core technologies, the Group believes the service can highlight its intrinsic value and exceptional expertise, and will yield a gross profit margin higher than that of less-shaved Processed Wood Panels in the future.

The Group uses a self-developed processing procedure ("Wood Processing Procedure") and a self-developed impregnation fluid made with biological synthetic resin technologies for less-shaved Processed Wood Panels. This procedure is applied to poplars, a fast growing tree species with a growth cycle of about seven to ten years, which is relatively shorter than typical tree species used by the construction industry. The poplars can withstand long, cold winters and short summers, and its supply in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure can help improve the poplar wood panels' hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti-corrosiveness, bending strength and elasticity. The Processed Wood Panels will also have stronger moisture and flame resistance and the natural wood grain and pattern will also be preserved in the end-products. After the Group's Wood Processing Procedure, these poplar wood panels can be used to substitute natural solid wood panels, hence have wide application in furniture making and indoor furnishing.

Processed Wood Panels

The Group's principal products are Processed Wood Panels ("Processed Wood Panels"). They are made of poplar wood panels that went through the Group's Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimensions required and other specifications of customers. Processed Wood Panels are generally used to produce floor planks, doors and furniture.

Processed Wood Panels include traditional Processed Wood Panels and less-shaved Processed Wood Panels. For the year ended 31 December 2017, the Group only offered customers less-shaved Processed Wood Panels, which involve fewer production processes and lower wastage of production materials, as such allow the Group to utilise its production capacity more efficiently. Although less-shaved Processed Wood Panels have a lower average selling price and gross profit margin compared with traditional Processed Wood Panels, the Directors believe that it is in the interest of the Group to shift its focus to less-shaved Processed Wood Panels for sales of products for the following reasons: it is able to (i) enhance production efficiency; (ii) reduce unit cost of sales; (iii) reduce inventory turnover days and increases sales volume; and (iv) improve price advantage over competing products.

Processed Finger Joint Wood Panels

Processed finger joint wood panels ("Processed Finger Joint Wood Panels") are another type of products of the Group. They are made from cut-offs and small pieces of wood produced during the trimming process of Processed Wood Panels. These cut-offs and small pieces are laminated, pressed and further processed to form Processed Finger Joint Wood Panels of standard size, and are generally used to produce wooden furniture, doors and window frames. Due to the low gross profit margin of the product, the Group ceased the production and sale of Processed Finger Joint Wood Panels during the year ended 31 December 2017.

Rendering of Wood Processing Procedure service

The Group provides Wood Processing Procedure service to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processed at their own facilities or elsewhere. The Group provides the service to customers for their raw wood panels at a fee. Since the impregnation fluid is self-developed and the production cycle of Wood Processing Procedure is short, the cost of the service is notably lower than that of Processed Wood Products, it is expected to yield a higher gross profit margin in the future than that of Processed Wood Panels.

Recent Development

During the first half of 2017, the Group's factory located in Handan (the "Handan Factory"), Hebei Province, the PRC, was informed by the local government authority to eliminate its 10 tons of coal-fired boiler by end of October 2017 in compliance with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》). In view of this, the Group had ceased the operation of its coal-fired boiler to comply with the air pollution control requirement. The Group has been negotiating with the local government in order to resolve the problem and the government tentatively proposed to construct natural gas pipeline for use by the Group. However, up to the date of this report, there is no concrete solution. The Directors consider that the Group will come up with a solution with the local government in coming months and expect to resume full operation in 2018.

The Directors identified indicators of potential impairment of non-current assets held by Handan Factory and performed impairment assessments to these assets as at 31 December 2017. As a result, an impairment loss of RMB2.3 million (2016: RMBNil) was recognised in "administrative expenses".

On 8 January 2018, Hebei AMS Wood Processing Co., Ltd. ("Hebei AMS"), a wholly-owned subsidiary of the Company, was awarded 國家科學技術進步獎二等獎 (the 2017 State Science and Technology Improvement Award (Second Class)*) in respect of "基於木材細胞修飾的材質改良與功能化關鍵技術 (Material Modification and Functionalization Technology Based on the Modification of Wood Cell*) (the "Award"). The Award demonstrates the highest recognition of the Group's capability for research and development and marketisation in the technical application of products. The State Science and Technology Improvement Award (Second Class) shows that the Group has achieved another important outcome in creating the field of modern wood optimization, which is also a concentrated embodiment of its scientific research capacity and industry influence. The Directors believe that this Award will inspire the Group to continue practicing the world's leading environmental production philosophy and to become a leading enterprise in the wood optimization industry. For details of the Award, please refer to the announcement of the Company dated 10 January 2018.

On 6 February 2018, the Company was officially notified that Jiangsu AMS Wood Industry Company Limited ("Jiangsu AMS"), a subsidiary of the Company located in the PRC, has obtained the High and New Technology Enterprise Certificate (the "Certificate"). The High and New Technology Enterprise Certificate is valid for a term of 3 years ending 31 December 2019. According to the relevant requirements of the Administrative Measures with regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) (the "Administrative Measures"), an enterprise which has obtained the High and New Technology Enterprise Qualification is entitled to enjoy tax preferential treatment from the year in which the Certificate is issued; and in accordance with the relevant requirements of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), High and New Technology Enterprises are entitled to enjoy a preferential tax rate at the enterprise income tax rate of 15%. The Directors are of the opinion that the relatively low enterprise income tax rate of Jiangsu AMS will have a positive impact on the operation results of the Group. For details of the Certificate obtained, please refer to the announcement of the Company dated 6 February 2018.

USE OF PROCEEDS

The net proceeds from the placing (the "Placing") of the Company's shares on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2014 (the "GEM Listing Date") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 31 December 2017 had been applied as follows:

		Planned use of net proceeds from Placing as shown in the Prospectus from the GEM Listing Date to 31 December 2016 *(Note 1)* HK$ million (Approximate)	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2016 Utilised net HK$ million (Approximate)	Utilised net proceeds from Placing for the year ended 31 December 2017 HK$ million (Approximate)	Unutilised net proceeds from Placing as at 31 December 2017 HK$ million (Approximate)
1.	Strengthen the Group's research and development capacities	23.0	23.0	—	—
2.	Continue to expand the Group's sales network	20.8	17.0	3.2	0.6
3.	Expansion of the Group's production capacity	84.4	84.4	—	—
4.	Repayment of loans	68.2	68.2	—	—
5.	General working capital and other general corporate purposes	33.2	33.2	—	—
	Total:	229.6	225.8	3.2	0.6

Note 1: Calculated based on the net proceeds received from the Placing of about HK$229.6 million.

As at 31 December 2017, the Group had an unutilised balance of net proceeds of approximately HK$0.6 million. The Group expects to apply such net proceeds on (i) the operational expenses to be incurred by the Group's sales department; and (ii) participation in industry exhibitions and trade fairs.

All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group recorded a substantial decrease in revenue by about RMB248.2 million, or 51.0% from about RMB486.5 million in 2016 to about RMB238.3 million in 2017. The substantial decrease in revenue was mainly attributable to the substantial decrease in sales of Processed Wood Panels since the Group started to provide Wood Processing Procedure service, instead of focusing on selling Processed Wood Panels to customers who can purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group. Moreover, the fee charged for rendering Wood Processing Procedure service is lower than the average selling price of Processed Wood Panels. As a result, revenue derived from sale of Processed Wood Panels decreased substantially by about RMB352.4 million, or 85.0% from about RMB414.4 million in 2016 to about RMB62.0 million in 2017. The substantial decrease in revenue from sale of Processed Wood Panels was partially compensated by the substantial increase in revenue from processing fee charged for the provision of Wood Processing Procedure service which amounted to about RMB176.3 million for the year ended 31 December 2017.

Although the Group recorded a substantial decrease in revenue from Processed Wood Panels, the average selling price of less-shaved Processed Wood Panels increased from RMB3,477/m^3 for the year ended 31 December 2016 to RMB3,508/m^3 for the year ended 31 December 2017. The average processing fee charged by the Group for the provision of Wood Processing Procedure service was about RMB1,111/m^3, or RMB1,880 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the year ended 31 December 2017, as compared to the average processing fee of RMB1,085/m^3 for the year ended 31 December 2016. From May 2017 onward, the Group will only charge processing fee based on the weight of impregnation fluid consumed during the Wood Processing Procedure, since the weight of impregnation fluid consumed varies with the tree species and quality of the wood panels, the arrangement of charging unit is fair to the Group and its customers.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Year ended 31 December					
	2017			2016		
	Volume (m^3)	**RMB'000**	**%**	Volume (m^3)	RMB'000	%
Processed Wood Panels:						
— less-shaved	**17,684**	**62,042**	**26.0**	115,092	400,165	82.3
— traditional	**—**	**—**	**—**	2,879	14,273	2.9
sub-total	**17,684**	**62,042**	**26.0**	117,971	414,438	85.2
Processed Finger Joint Wood Panels	**—**	**—**	**—**	2,220	9,675	2.0
Processed Wood Products	**17,684**	**62,042**	**26.0**	120,191	424,113	87.2
Rendering of Wood Processing Procedure service *(Note 1)*	**190,097**	**176,288**	**74.0**	57,490	62,384	12.8
		238,330	**100.0**		486,497	100.0

Note 1: The volume of wood panels processed is derived based on our experience and the average measurement results that one ton of raw impregnation fluid consumed during the Wood Processing Procedure can process an average 12 m^3 of wood panels.

Analysis of average selling price per cubic meter by segment is as follows:

	2017	2016
	RMB	RMB
Processed Wood Panels	**3,508**	3,513
— less-shaved	**3,508**	3,477
— traditional	**—**	4,958
Processed Finger Joint Wood Panels	**—**	4,358
Overall average selling price of Processed Wood Products	**3,508**	3,529
Rendering of Wood Processing Procedure service		
— average selling price per cubic meter	**1,111**	1,085
— average selling price per ton consumed	**1,880**	—

Management Discussion and Analysis

Processed Wood Panels

Revenue from sales of Processed Wood Panels decreased substantially by about RMB352.4 million, or 85.0% from about RMB414.4 million in 2016 to about RMB62.0 million in 2017. The decrease was primarily due to the Group started to provide Wood Processing Procedure service to customers who can purchase raw wood panels and can choose to conduct the drying, shaving and cutting by themselves at a lower cost than the Group in the fourth quarter of 2016 and from May 2017 onward, the Group focused on rendering of Wood Processing Procedure service. These customers provided their raw wood panels to the Group, and the Group only charged a processing fee for the service, which is relatively less than the price charged for the selling of Processed Wood Panels to these customers. As a result, the Group recorded a substantial decrease in revenue from sales of Processed Wood Panels. The sales volume of Processed Wood Panels also decreased substantially by about 85.0% from about 117,971 m^3 for the year ended 31 December 2016 to about 17,684 m^3 for the year ended 31 December 2017.

Processed Finger Joint Wood Panels

Revenue from sales of Processed Finger Joint Wood Panels decreased substantially by about RMB9.7 million for the year ended 31 December 2017 as compared to 2016. Since Processed Finger Joint Wood Panels yields a lower gross profit margin than other products of the Group, the Group decided to cease the operation and sale of Processed Finger Joint Wood Panels during the year ended 31 December 2017.

Rendering of Wood Processing Procedure service

The Group's impregnation fluid and Wood Processing Procedure are its core technologies which are difficult to replicate in a short time. And via providing Wood Processing Procedure service, the Group can reveal its intrinsic value and enjoy a higher gross profit margin from the service than that of Processed Wood Panels. Therefore, the Group enhanced its effort to render Wood Processing Procedure service to customers who can carry out purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group during the year ended 31 December 2017. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,111/m^3 of the raw wood panels from these customers or RMB1,880 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the year ended 31 December 2017, as compared to the average processing fee of RMB1,085/m^3 for the year ended 31 December 2016. From May 2017 onward, the Group will only charge processing fee based on the weight of impregnation fluid consumed during the Wood Processing Procedure, since the weight of impregnation fluid consumed varies with the tree species and quality of the wood panels, hence is fair to the Group and its customers. The revenue derived from rendering of Wood Processing Procedure service amounted to about RMB176.3 million, representing about 74.0% of total revenue of the Group for the year ended 31 December 2017.

Cost of Sales

Cost of sales of the Group decreased substantially by about RMB247.2 million or 72.5% from about RMB341.1 million for the year ended 31 December 2016 to about RMB93.9 million for the year ended 31 December 2017. The decrease was mainly a result of the decrease in the Group's total sales volume of Processed Wood Panels as discussed under the paragraph headed "Revenue" above, which was substantially offset by the significant increase in gross profit of rendering of Wood Processing Procedure service.

Gross Profit

Gross profit of the Group decreased by about RMB1.0 million or 0.7% from about RMB145.4 million for the year ended 31 December 2016 to about RMB144.4 million for the year ended 31 December 2017. The decrease in gross profit of the Group was mainly attributable to the decrease in sales volume of the Processed Wood Panels as a result of rendering of Wood Processing Procedure service for the year ended 31 December 2017 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2017	2016
	%	%
Processed Wood Panels	**23.6**	25.0
— less-shaved	**23.6**	24.7
— traditional	**—**	35.0
Processed Finger Joint Wood Panels	**—**	17.9
Overall gross profit margin of Processed Wood Products	**23.6**	24.9
Rendering of Wood Processing Procedure service	**73.6**	63.8
Overall gross profit margin	**60.6**	29.9

Overall gross profit margin of the Group increased substantially from about 29.9% for the year ended 31 December 2016 to about 60.6% for the year ended 31 December 2017. Such increase was mainly attributable to the rendering of Wood Processing Procedure service which can earn a higher gross profit margin of about 73.6% for the year ended 31 December 2017 than that of Processed Wood Products of about 24.9% for the year ended 31 December 2016. In addition, the Group raised the average selling price of less-shaved Processed Wood Panels by about RMB31/m^3 from about RMB3,477/m^3 for the year ended 31 December 2016 to RMB3,508/m^3 for the year ended 31 December 2017. However, the overall gross profit margin of the Processed Wood Panels slightly decreased from about 24.9% for the year ended 31 December 2016 to about 23.6% for the year ended 31 December 2017. Such decrease was mainly due to the increase in unit purchase price of raw wood panels and the decrease in production volume of Processed Wood Products which caused the increase in the unit fixed cost of the Processed Wood Panels. The unit cost of the Processed Wood Products increased from about RMB2,633/m^3 for the year ended 31 December 2016 to about RMB2,680/m^3 for the year ended 31 December 2017. As a result of the factors mentioned above, the Group recorded a substantial increase in its overall gross profit margin for the year ended 31 December 2017 as compared to 2016.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 25.0% for the year ended 31 December 2016 to about 23.6% for the year ended 31 December 2017. Such decrease was mainly attributable to the increase in unit cost of the less-shaved Processed Wood Panels from about RMB2,618/m^3 for the year ended 31 December 2016 to about RMB2,680/m^3 for the year ended 31 December 2017 which was mainly due to the increase in unit purchase price of raw wood panels and the decrease in sales volume of less-shaved Processed Wood Panels with some of the production costs being fixed costs and the decrease in production and sales volume of Processed Wood Panels translating into higher unit cost of sales.

Processed Finger Joint Wood Panels

The Processed Finger Joint Wood Panels have a lower gross profit margin than that of traditional Processed Wood Panels because they are made of cut-offs produced in the manufacturing processes of Processed Wood Panels, hence are in all shapes and sizes. Processing these cut-offs involves more production processes and requires more production materials and labour. Therefore, the average cost of sales per cubic meter of the Processed Finger Joint Wood Panels sold was higher than that of traditional Processed Wood Panels, while their average selling price is in general lower than that of traditional Processed Wood Panels, thus they have a lower gross profit margin. In view of this, the Group ceased production and sale of Processed Finger Joint Wood Panels during the year ended 31 December 2017.

Rendering of Wood Processing Procedure service

To improve the Group's gross profit margin, the Group enhanced the business of rendering Wood Processing Procedure service to customers who can carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group for the year ended 31 December 2017. These customers provided their raw wood panels to the Group and the Group charged them a processing fee for the service. Since the impregnation fluid used in the process is self-developed and the production cycle of Wood Processing Procedure is short, the production cost of the service is far lower than that of Processed Wood Panels, and that allowed the Group to earn a high gross profit margin of about 73.6% for the year ended 31 December 2017.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. The Group's other income increased by about RMB1.1 million from about RMB6.6 million for the year ended 31 December 2016 to about RMB7.7 million for the year ended 31 December 2017. The increase was mainly due to the increase in income from government grants by about RMB1.1 million and the increase in rental income by about RMB6.7 million for the year ended 31 December 2017 as compared to 2016 and was partially offset by the increase in loss on disposal of property, plant and equipment of RMB5.6 million. The subsidiary of the Group established in Jiangsu Province, Jiangsu AMS, received government grants of about RMB20.4 million from the local government authority for the establishment and operation of the Group's factory located in Huai'an (the "Huai'an Factory") in the third quarter of 2016. The government grants received by the Group will be amortised over the expected useful life of the relevant assets. As a result, the Group recorded an increase in government grants of about RMB1.1 million for the year ended 31 December 2017 as compared to 2016 due to a full year effect. The Group's rental income increased by about RMB6.7 million from about RMB1.3 million for the year ended 31 December 2016 to about RMB8.0 million for the year ended 31 December 2017. The increase in rental income was mainly because of the Group shifting its focus to rendering of Wood Processing Procedure service with a higher gross profit margin and reduction in the need of production facilities. Therefore, the Group has leased these idle facilities and workshops to one independent supplier and two independent customers during the year ended 31 December 2017. The increase in other income was partially offset by the loss on disposal of a motor vehicle of about RMB1.0 million and certain unused production facilities of about RMB4.5 million. Since the operation of the Group's Hong Kong office is stable and smooth, the Group decided to cut the running cost of motor vehicles and retained one vehicle to serve the operation in Hong Kong. In addition, due to change of production and sales pattern, the Group had disposed of certain unused production facilities and recorded a disposal loss of about RMB4.5 million for the year ended 31 December 2017 as compared to 2016.

Selling Expenses

The Group's selling expenses decreased by about RMB0.4 million or 12.9% from about RMB3.1 million for the year ended 31 December 2016 to about RMB2.7 million for the year ended 31 December 2017. Such decrease was principally due to the decrease in the marketing and promotion expenses by about RMB0.3 million from about RMB0.4 million for the year ended 31 December 2016 to about RMB0.1 million for the year ended 31 December 2017 due to the change of marketing strategy.

Administrative Expenses

The Group's administrative expenses amounted to about RMB50.4 million and about RMB74.6 million for the year ended 31 December 2016 and 2017 respectively. The administrative expenses mainly included staff costs, professional fees, depreciation and amortisation charges, research and development expenses and impairment losses. The staff costs remained stable for the year ended 31 December 2016 and 2017 which amounted to about RMB9.8 million and about RMB9.7 million respectively. Furthermore, due to the scale down of production of less-shaved Processed Wood Panels and the ceased operation of its 10 tons of coal-fired boiler in order to comply with the air pollution control requirement, the Group recorded into administrative expenses an additional depreciation charge of about RMB7.4 million for some idle machineries and workshops for the year ended 31 December 2017. The depreciation and amortisation charges increased by about RMB5.7 million from about RMB4.2 million for the year ended 31 December 2016 to about RMB9.9 million for the year ended 31 December 2017 which was mainly due to the full operation of the Huai'an Factory after June 2016. Besides, the research and development expenses increased by about RMB10.1 million from about RMB14.0 million for the year ended 31 December 2016 to about RMB24.1 million for the year ended 31 December 2017. The increase in research and development expenses was mainly due to the research projects conducted in 2017 consumed more wood materials and raw impregnation fluids than that in 2016. However, the increase in research and development expenses and depreciation and amortisation charges were partially offset by the decrease in the professional fees by about RMB4.1 million from about RMB10.4 million for the year ended 31 December 2016 to about RMB6.3 million for the year ended 31 December 2017. The decrease in professional fees was mainly due to the costs incurred in the first half of 2016 for the preparation for the transfer of listing of the Company's shares from the GEM to the Main Board of the Stock Exchange on 12 September 2016. No such cost was incurred for the year ended 31 December 2017. As mentioned in the paragraph headed "Recent Development" above, the Directors identified indicators of potential impairment of non-current assets held by Handan Factory and performed impairment assessments to these assets as at 31 December 2017. As a result, an impairment loss of about RMB2.3 million was recognised in "administrative expenses". No such impairment losses were incurred for the year ended 31 December 2016.

Finance Costs

The Group's finance costs decreased by about RMB1.3 million or 15.5% from about RMB8.4 million for the year ended 31 December 2016 to about RMB7.1 million for the year ended 31 December 2017. The decrease was mainly attributable to the decrease in interest expenses of about RMB1.4 million on other long-term loan entered into with a financial leasing institution in the fourth quarter of 2015 for selling some machinery used by the Handan Factory and then leasing back.

Income Tax Expenses

The Group's income tax expenses decreased by RMB8.7 million or 43.7% from RMB19.9 million for the year ended 31 December 2016 to RMB11.2 million for the year ended 31 December 2017. The effective tax rate of the Group also decreased from 22.1% for the year ended 31 December 2016 to 16.6% for the year ended 31 December 2017. The decrease in income tax expenses and effective tax rate were mainly due to the fact that Jiangsu AMS has obtained the Certificate which was entitled to the preferential PRC Corporate Income Tax rate of 15% with effect from 2017.

Profit for the Year

As a combined result of the factors discussed above, the Group's profit for the year decreased from about RMB70.2 million for the year ended 31 December 2016 to about RMB56.4 million for the year ended 31 December 2017. However, the Group's net profit margin increased substantially from about 14.4% for the year ended 31 December 2016 to about 23.7% for the year ended 31 December 2017. Such increase was mainly due to the increase in other income and the decrease in selling expenses, finance costs and income tax expenses, which were partially offset by the increase in the administrative expenses for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2017	2016
Current ratio	**4.23**	5.27
Gearing ratio*	**0.21**	0.23

* Calculated based on total debts at the end of the year divided by total equity at the end of the year. Total debts are defined to include payables incurred not in the ordinary course of business (total liabilities less trade payables and receipts in advance).

The current ratio of the Group as at 31 December 2017 was about 4.23 times as compared to that of about 5.27 times as at 31 December 2016. The decrease in current ratio was mainly because long term fixed rate bank and other loans of about RMB44.8 million as at 31 December 2016 became short-term bank and other loans as at 31 December 2017. In addition, the Group borrowed a fixed rate bank loan of RMB30.0 million during the year ended 31 December 2017. The Group's gearing ratio as at 31 December 2017 was about 0.21 as compared to that of 0.23 as at 31 December 2016. Such decrease was mainly due to the repayment of other borrowings, finance lease liabilities and bills payables of about RMB32.9 million during the year ended 31 December 2017.

The Group's finance department closely monitors the Group's cash flow position to ensure that the Group has sufficient working capital available to meet its operational needs. The finance department takes into account trade receivables, trade payables, cash on hand and at bank, repayment of bank and other borrowings and finance lease liabilities, administrative and capital expenditures to prepare the cash flow forecast to forecast the Group's future liquidity.

The Group mainly finances its capital expenditure and operational requirements through internally generated cash flows, cash reserve, bank and other loans and finance lease.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to Nil as at 31 December 2017 (31 December 2016: Nil).

PLEDGE OF ASSETS

At 31 December 2017, time deposits of RMB50,760,000 (31 December 2016: RMB16,000,000) have been pledged for bank loans of a third party supplier of the Group amounting to RMB48,000,000 (31 December 2016: RMB15,000,000).

These bank loans were repaid by the borrower in March 2018 and as a result the pledges have been released at the same time.

At 31 December 2017, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB58.0 million (31 December 2016: RMB61.4 million) were pledged to banks for bank borrowings.

At 31 December 2017, the Group's property, plant and equipment with a carrying amount of about RMB23.5 million (31 December 2016: RMB28.6 million) has been pledged to a financial leasing institution for the long-term other loan, which was reclassified to short-term other loan as at 31 December 2017.

In November 2015, the Group entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, the Group entered into a supplementary agreement with this institution and reduced the amount of assets held under finance lease and the obligations under finance lease. At 31 December 2017, the net book value of machinery and equipment held under finance lease is RMB15.4 million (31 December 2016: RMB17.2 million).

CONTINGENT LIABILITY

As at 31 December 2017, the Group provided guarantees for the facilities given by a bank to a supplier of the Group, an independent third party of the Company, for a total amount of RMB50.8 million (31 December 2016: RMB16.0 million). The banking facilities utilised by the supplier amounted to RMB48.0 million (31 December 2016: RMB15.0 million).

The Group continued to provide guarantee to one of its suppliers in 2017 because the supplier was in need of financing. It is the industry practise for these wood traders to make prepayments to their suppliers. While the supplier had limited ability in obtaining banking facilities, the Group decided to provide assistance to this supplier by providing guarantee for the facilities given by the bank to that supplier. As at the date of this report, the facilities have been repaid and the guarantees to this supplier have been released.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2017.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 December 2017. The capital of the Company only comprises of ordinary shares.

As at 31 December 2017, all the bank and other loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

At 31 December 2017, there was no significant investment held by the Group (31 December 2016: Nil).

FOREIGN CURRENCY EXPOSURE

During 2017, the Group's monetary assets and transactions were mainly denominated in RMB and HK$. The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

The Group recognises the importance of good relationship with employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group continues to provide training for new staff and existing staff to enhance their technical knowledge. The Group also provides fire and production safety training to the production staff. The Directors believe that such initiatives have contributed to the Group's increased productivity and efficiency.

The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability and the staff performance, the Group may also provide a discretionary bonus to employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

A remuneration committee is set up for reviewing the Group's emolument policy and structure of all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

For the year ended 31 December 2017, the Group employed 255 employees, the total staff costs amounted to RMB21.3 million (2016: RMB28.1 million). The Company maintains a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this report, no option has been granted under the Share Option Scheme.

OUTLOOK

The Group will continue to promote market recognition for its less-shaved Processed Wood Panels and focus on providing Wood Processing Procedure service to customers in the PRC. To those ends, the Group will hire more research and development specialists to strengthen its expertise and know-know for developing impregnation fluids and its Wood Processing Procedure.

Focusing on the rendering of Wood Processing Procedure service, the Group can yield a higher gross profit margin with its core technologies. In addition, the Group is able to lower down the need of production facilities and make full use of processing capacity of the Group.

Biographical Details of Directors

DIRECTORS

Executive Directors

Ms. Yim Tsun (閻峻) ("**Ms. Yim**"), aged 46, is an executive Director of the Company and the chairlady of the Board. She is one of the founders of the Group and one of the controlling Shareholders. Ms. Yim was appointed as the executive Director on 6 June 2012. Ms. Yim is mainly responsible for the strategic planning, corporate culture, overall operation and management of the Group. Ms. Yim obtained a professional diploma in public relations and communications management from the School of Continuing and Professional Studies of The Chinese University of Hong Kong (香港中文大學專業進修學院) in January 2008. Prior to establishing the Group, Ms. Yim worked as a manager in the China marketing department of the China Overseas Communications Limited* (中國海外傳播公司) from May 2001 to September 2003; and as a director of exhibition department in Hong Kong Wen Wei Po Daily International Public Relations Consultant Co. Limited (香港文匯報國際公關顧問有限公司) from September 2004 to November 2011. Ms. Yim is also a director of certain subsidiaries of the Company.

Mr. Li Li (李理) ("**Mr. Li**"), aged 38, is an executive Director of the Company and one of the founders of the Group. Mr. Li was appointed as the executive Director on 23 July 2012 and the chief executive officer of the Company on 20 December 2013. Mr. Li is mainly responsible for the strategic planning and operation of the Group. Mr. Li obtained a diploma in computer applications from Zhengzhou University (鄭州大學) in July 1998. Mr. Li has accumulated over seven years of experience in sales, business management and over two years of experience in the chemical industry. Prior to establishing the Group, Mr. Li worked as a business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from May 1998 to November 2003, whereby he was responsible for sales to sizeable customers. Mr. Li also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from April 2004 to August 2006. From September 2006 to June 2009, Mr. Li worked as a technical supervisor in Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司). Mr. Li is also a director of Jiangsu AMS.

Independent Non-Executive Directors

Mr. Zhang Dali (張達立) ("**Mr. Zhang**"), aged 58, is an independent non-executive Director of the Company. Mr. Zhang was appointed as the independent non-executive Director on 20 December 2013. Mr. Zhang obtained his diploma in control engineering and computer science from the Harbin Institute of Technology (哈爾濱工業大學) in January 1982. Mr. Zhang then obtained a master of science in forest operations from The University of Alberta in June 1989, and a doctoral degree from the University of Wisconsin-Madison in December 1992. Mr. Zhang has accumulated over 15 years of professional experience in forestry, wood products and paper industries. Prior to joining the Group, Mr. Zhang was the managing director of RISI's, Inc. in Asia from March 2010 to February 2012 and a vice president in the corporate development at Norske Skog (Hebei) Paper Co., Ltd. during February 2008 to February 2010, where he was responsible for corporate development. Mr. Zhang also worked for more than 11 years with the Pöyry Management Consulting between September 1996 to February 2008, and held various positions with Pöyry offices in Singapore, New York and Shanghai, where he was responsible for business and marketing strategies. Mr. Zhang re-joined Pöyry Management Consulting in April 2014, as director and head of China Operation.

Biographical Details of Directors

Mr. Pu Junwen (蒲俊文) ("**Mr. Pu**"), aged 53, is an independent non-executive Director of the Company. Mr. Pu was appointed as the independent non-executive Director on 20 December 2013. Mr. Pu obtained a bachelor in pulp and paper engineering from the Shaanxi University of Science and Technology (陝西科技大學, formerly known as 西北輕工業學院) in July 1986. Prior to joining the Group, Mr. Pu was involved in academic and research work for the College of Materials Science and Technology of Beijing Forestry University (北京林業大學材料科學與技術學院) where he was a professor from January 2008 to December 2011 teaching classes on chemical processing technique for forestry production. Mr. Pu has expertise in research work relating to pulp technologies and usage of cellulose and its derivatives. Mr. Pu has also held positions in paper making or forestry-related committees.

Mr. Lau Ying Kit (劉英傑) ("**Mr. Lau**"), aged 44, is an independent non-executive Director of the Company. Mr. Lau was appointed as the independent non-executive Director on 20 December 2013. Mr. Lau is currently an independent non-executive director of Xiezhong International Holdings Limited (Stock Code: 3663), Kingdom Holdings Limited (Stock Code: 528) and United Strength Power Holdings Limited (Stock Code: 2337), both listed on the Main Board of the Stock Exchange. Mr. Lau is also a director of Adex Mining Inc. (Stock Code: ade), a company listed on the TSX Venture Exchange in Canada. Mr. Lau was the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 3683), a company listed on the Main Board of the Stock Exchange from October 2010 to November 2017. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and Mr. Lau obtained a master's degree in finance from the City University of Hong Kong in November 2008. Mr. Lau has extensive experience in finance and accounting in the PRC and Hong Kong.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to the shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise returns for the shareholders.

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, for the year ended 31 December 2017, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period for the year ended 31 December 2017.

THE BOARD OF DIRECTORS AND DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The Board currently consisted of five Directors, comprising two executive Directors and three independent non-executive Directors. During the year ended 31 December 2017, four Board meetings were held. Details of the attendance of the Directors are as follows:

Name of Directors	Attendance/ Number of Board Meetings
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	4/4
Mr. Li Li *(Chief Executive Officer)*	4/4
Independent Non-executive Directors	
Mr. Zhang Dali	4/4
Mr. Pu Junwen	4/4
Mr. Lau Ying Kit	4/4

During the year ended 31 December 2017, the Company held one annual general meeting on 17 May 2017, being 2016 annual general meeting of the Company (the "2016 AGM").

2016 AGM	Number of Attendance
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	1/1
Mr. Li Li *(Chief Executive Officer)*	1/1
Independent Non-Executive Directors	
Mr. Zhang Dali	1/1
Mr. Pu Junwen	1/1
Mr. Lau Ying Kit	1/1

RESPONSIBILITY OF THE BOARD

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions and duties conferred on the Board include convening shareholders' meetings, reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company and applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The independent non-executive Directors bring a variety of experience and expertise to the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance functions are carried out by the Board in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors also have access to the company secretary of the Company (the "Company Secretary") who is responsible for ensuring that the Board procedures and all applicable rules and regulations are followed. An agenda and accompanying Board committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which record in sufficient details of the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2017, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2017, the Directors participated in the following continuous professional development:

Name of Directors	Training organised by professional organisation[1]	Reading materials updating on new rules and regulations
Executive Directors		
Ms. Yim Tsun	✓	✓
Mr. Li Li	✓	✓
Independent Non-executive Directors		
Mr. Zhang Dali	✓	✓
Mr. Pu Junwen	✓	✓
Mr. Lau Ying Kit	✓	✓

Notes:

1. Professional training organised by professional organisation namely "Directors' duties, the new Companies Ordinance and the SFC" and "Risk Management and Internal Control" were arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the year ended 31 December 2017, the roles of the chairlady and the chief executive officer are separate. Ms. Yim Tsun was the chairlady while the role of the chief executive officer was performed by Mr. Li Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of Appointment of Independent Non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 6 January 2017 to 5 January 2020, and will continue thereafter until terminated by either party giving not less than three months' prior notice in writing.

Independent Non-executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions; in particular, they bring an impartial view to bear on issues arising from the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of all the shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board.

Among the three independent non-executive Directors, Mr. Lau Ying Kit has appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs:

Audit Committee

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting system, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit.

During the year ended 31 December 2017, two audit committee meetings were held to review and discuss with the external auditors and the management of the Company the accounting principles and practices adopted by the Group, the draft financial statements for the six months ended 30 June 2017 and the year ended 31 December 2017 as well as risk management, internal control systems, the effectiveness of the internal audit function and other financial reporting matters. The attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Mr. Lau Ying Kit *(Chairman)*	2/2
Mr. Zhang Dali	2/2
Mr. Pu Junwen	2/2

Remuneration Committee

The Company established a remuneration committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The remuneration committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Pu Junwen and Mr. Zhang Dali. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The chairman of the remuneration committee is Mr. Pu Junwen.

During the year ended 31 December 2017, one remuneration committee meeting was held to, amongst others, review and approve the remuneration packages of the Directors and senior management of the Company. The attendance records of individual committee members are as follows:

	Number of Meetings Attended/Held
Mr. Pu Junwen *(Chairman)*	1/1
Mr. Li Li	1/1
Mr. Zhang Dali	1/1

Nomination Committee

The Company established a nomination committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The nomination committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Zhang Dali and Mr. Pu Junwen. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The chairman of the nomination committee is Mr. Zhang Dali.

The nomination committee adopted a board diversity policy (the "Board Diversity Policy") on 20 December 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee has set measurable objectives based on three focus areas: education, PRC-related working experience and independence to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The nomination committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

During the year ended 31 December 2017, one nomination committee meeting was held. The attendance records of individual committee members are as follows:

	Number of Meetings Attended/Held
Mr. Zhang Dali *(Chairman)*	1/1
Mr. Li Li	1/1
Mr. Pu Junwen	1/1

Directors' and Auditors' Responsibility for the Consolidated Financial Statements

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, KPMG, for the year ended 31 December 2017, is set out as follows:

Nature of Services	Fee paid/ payable RMB'000
Annual audit service	2,800

The fee charged by KPMG in respect of annual audit service for the year ended 31 December 2017 amounted to RMB2.8 million.

COMPANY SECRETARY

The Company has entered into a service contract with an external service provider, pursuant to which Ms. Ho Wing Yan ("Ms. Ho") was appointed as the Company Secretary. Mr. Chor Ngai, the chief financial officer of the Company, is the primary corporate contact person of the Company with Ms. Ho.

Being the Company Secretary, Ms. Ho plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. Ms. Ho is responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of Directors.

Ms. Ho is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Ho continues to study professional course of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. Ho is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 3.29 of the Listing Rules, Ms. Ho took more than 15 hours of relevant professional training for the year ended 31 December 2017.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than annual general meetings, shall be called an extraordinary general meeting ("EGM").

To convene an EGM

Pursuant to article 64 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy (the "Policy") on 20 December 2013. Under the Policy, the Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings of the Company, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals at general meetings

The number of shareholders necessary for a requisition for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's principal place of business in Hong Kong in the case of:

(i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with necessary procedures.

Communication with Shareholders

The Board recognises the importance of maintaining clear, timely and effective communication with the shareholders and investors of the Company. The Board also recognises that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors of the Company and the shareholders will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.chinawood.com.hk. The Directors and members of various board committees will attend annual general meetings to answer questions raised by the shareholders. The resolution of every important proposal will be proposed at general meetings separately.

Voting at general meetings of the Company are conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media to keep them informed of the Group's strategy, operations, management and plans, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

INVESTOR RELATIONS

There was no change in the memorandum and articles of association of the Company during the year 31 December 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the audit committee has discussed with the management of the Company the matters relating to risk management and internal control of the Group. The Board complied with the code provisions on risk management and internal control as set out in the CG code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Group's risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. Self-assessment and comprehensive risk assessment surveys have been conducted during the review. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate precautions to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

The Board is also vested with the responsibility to disseminate to the shareholders and the public any inside information in the form of announcements and circulars, in accordance with the Listing Rules.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This report covers the sustainable development policies, strategies and performance of China Wood Optimization (Holding) Limited ("China Wood" or the "Group" or "we") and subsidiaries (collectively known as the "Group").

Unless otherwise stated, the reporting period in this report is from 1 January 2017 to 31 December 2017 (the "Reporting Period"). This report includes only our major businesses, namely the production of impregnating liquids using bio-synthetic resin technology for raw wood panels, also known as wood processing technology, for environmental, social and governance strategy and performance. In preparing this report, we complied with the "Environmental, Social and Governance Reporting Guidelines" as set out in the Appendix 27 of the Listing Rules, disclosing the sustainability performance that was important in the guidelines and related to the business of the Group during the Reporting Period.

To meet the guidelines, the Group has commissioned independent consultants to provide professional advice and allowed our stakeholders to fully participate. The information disclosed in this report is the topic most concerned by our major stakeholders. According to the requirements of the Stock Exchange of Hong Kong, when we present information, we are committed to using the importance, quantification, balance and consistency as the basis for this report. In the long run, we promise to disclose more comprehensive environmental, social and governance information to enhance the transparency of our sustainability performance.

As an environmentally and socially responsible Company, we are committed to linking sustainability considerations to all aspects of our operations. We welcome anyone to provide opinions and suggestions regarding this report and our sustainable development performance.

Please send your opinions to chinawood@sprg.com.hk

OUR SUSTAINABLE DEVELOPMENT CONCEPT

Climate change is one of the most serious issues facing the world today. The continuous deforestation has increased the concentration of carbon dioxide in the atmosphere, which has accelerated climate change. Sustainable development is inextricably linked with our timber industry. To achieve sustainable development, the Group will continue to pay high attention to environmental protection and the use of resources. At the same time, we highly value technological development, employment relations, ethical behavior and public welfare activities. From this, the Group has developed four sustainable development concepts:

1. Social Responsibility

Numerous experiences and lessons have taught us that development does not mean obtaining and plundering nature, or blind expansion of industrial layout, or mere pursuit of corporate profits. Development is a kind of morality, wisdom, rationality and science. In terms of specific corporate behavior and scientific development vision, we emphasize on advancing with the times, creating a resource-conserving and environment-friendly enterprise, actively valuing environmental protection, and leading the future.

2. Low Carbon & Energy Saving

The zero emission and low consumption in the production process of our products enable us to consume less energy, compared to other production means that use the same raw materials.

3. Green Sustainability

Through the high-value use of artificial fast-growing forest timber, the sustainable development of artificial fast-growing forest can be achieved, which can reduce the impact of illegal logging and protect natural and limited forest resources. The 50-200 year growth cycle for natural trees not only enriches the market for solid wood timber, but also greatly improves the utilization rate of natural timber.

4. Environmental Protection

The world's leading environmental friendly production vision enables China Wood to reach high levels of responsibility from production and processing to product use, without any pollution or destruction.

OUR ENTERPRISE CULTURE

The Group regards integrity, enthusiasm, innovation and sustainability as our core values.

- Integrity: that is, we are committed to meeting our commitments to employees, customers, and other communities;
- Enthusiasm: that is, we will continue to look for opportunities for improvement, hoping to do better;
- Innovation: actively conduct research and development work, and continue to review and improve the management model;
- Sustainability: the road to sustainable development allows us to operate sustainably.

PRODUCT RESPONSIBILITY AND TECHNICAL DEVELOPMENT

The performance of product quality is closely related to the development of the Group. To ensure the Company has good development, a comprehensive product quality control procedure is one of the necessary factors. We always adhere to the strict quality standards and comply with laws and regulations related to our operations. From raw material supply management, production, processing, and finished product delivery, we have a comprehensive control procedure to ensure that our products meet the requirements of our quality standards, and we have also obtained the international quality management system standard ISO 9001. In accordance with the framework and regulations of the international standard, we are striving to standardize the production process so as to maintain the quality of our products at a high level.

During the Reporting Period, we did not recover any products and to the best of the Directors' knowledge, the Group did not receive any complaints from any person regarding the Group's products being inconsistent with the related advertisements and labels regarding health and safety, products and services. In addition, during the Reporting Period, we did not face any major complaints, product claims or product recalls.

Technical Development

In order to expand our sources of income and achieve the purpose of sustainable development, we also hope to more effectively explore the Company's internal potential and technical characteristics. In the future, the Group will continue to work hard to optimize product technology and strive to improve the utilization technology of soaking fluids, and will continue to strengthen the research and development of products and soaking fluids. Through our unique technology, we further secure the Group's leading position in the market, and thus for our sustainable development to establish a strong foundation.

Testing

The formaldehyde emission of wood products handled by the Group is at a low level (less than 0.5 mg/L) and complies with the E0 level of formaldehyde emission standards. Based on Soaking Paper Laminated Wood Flooring (GB/T18102-2007) Standards and Wood Flooring Heating LY/T1700-2007 Standards to ensure that the product quality such as strength, density, and stability, meets the standards.

Understanding, Satisfying Customers' Needs

Understanding customer needs and meeting their expectations is a very important part of our operations. Our sales department regularly monitors customer satisfaction and areas for improvement as a measure of quality management. In addition to daily communication with customers, we also actively participate in various activities to keep abreast of market trends and customer demand trends, actively communicate with customers, collect relevant information and reflect them to related departments.

"AMS" – LOVE AND PROTECT THE BIG PRIMITIVE FOREST

Jiangsu AMS Wood Industry Company Limited ("Jiangsu AMS"), and Hebei AMS Wood Processing Co., Ltd. are the most essential subsidiaries of the Group. From the name of our subsidiaries, "AMS" has always been an important core concept of our group. We hope to achieve the ultimate goal of "loving the beautiful big primitive forest" by running our business. Only by properly protecting the original large forest, can the forest industry be developed sustainably.

Our products are green, new environmentally-friendly solid wood and are mainly used in poplar and other traditional low value-added fast-growing forests. These woods have defects such as being easily perishable, deformed, and cracked. But through our unique optimization technology, the density, hardness, bending strength, elasticity and other properties can be greatly improved. Furthermore, the durability, slow combustion ability, deformation resistance, crack resistance, etc. are greatly enhanced, achieving the goal of improving functionality of wood and extending the service life. The purpose is to produce high value-added optimized wood that can replace natural solid wood panels. Wood processed by our optimization technology is superior to logs in terms of density, hardness, etc., and can be widely used in furniture, renovation, construction and other industries. As our products can be used as an ideal alternative to high-end natural logs, they can effectively reduce the deforestation, not only contributing to the improvement of climate change, but also for the purpose of forest protection, making efforts to preserve the natural environment and protect forest resources.

From the above, the forest industry is closely related to the ecological system and is important in all aspects such as responding to climate change, protecting biodiversity, and maintaining water and soil. It is also an important element in developing a green economy. From the beginning of the Report Year, the Group's business is mainly processing of wood. In which the raw material used is the soaking fluid developed from our own research. In order to protect the environment and reduce waste, we have established a soaking fluid circulation system in the production system. The circulation system collects the residual soaking fluid in the production process for continuous usage, so that the entire wood processing production process can produce no waste. However, as a leader in the timber optimization industry, we are still actively adopting various environmental protection measures to ensure compliance with the relevant environment, protection laws and regulations. Relevant laws and regulations include the "China Environmental Protection Law," "China's Water Pollution Control Law," "China's Air Pollution Control Law," and "China National Environmental Noise Pollution Prevention and Control Law" and "China's Solid Waste Pollution Prevention and Control Law", etc. The regulatory issues involved are mainly air pollution, sewage and waste. During the Reporting Period, as far as the Directors are aware, the Group did not receive complaints from any regulatory agency or any other person regarding any environmental aspects. There have also been no major environmental accidents caused by its manufacturing activities. During the Reporting Period, the Group has not been subject to major administrative sanctions or penalties for violating environmental laws or regulations.

In addition, we have obtained the ISO 14001:2015 certification of the environmental management system and have formulated environmental protection guidelines and objectives, and corresponding implementation policies. At the same time, we have also standardized the environmental protection policies and measures of the relevant parties and adopted standardized management to reduce the Group's impact on the environment.

Emission Management

In terms of emissions, the Group's business did not generate significant emissions, but the monitoring of emissions is still indispensable. Therefore, we will regularly arrange for the testing of air emissions and water pollution emissions, such as sampling and testing at the waste gas outlets of the workshops to ensure that the pollutants discharge concentration meets the "Air Pollution Comprehensive Discharge Standard (GB16297-1996)". The pollutants listed in the standard include particulate matter, sulfur dioxide and nitrogen oxides. In addition, the cars we own will also generate trace amounts of air emissions. Regarding sewage discharge, we will also conduct sampling inspections at the sewage outlets to ensure compliance with the water. Pollution emission regulations include indicators such as chemical oxygen demand, suspended solids, and ammonia nitrogen.

Greenhouse Gas Emissions and Resource Utility

The Group's production equipment is mainly driven by electricity, and the relevant power is provided by the grid supplier where it operates. There is no boiler or other fuel burning equipment installed in the workshop. Therefore, our greenhouse gas emissions mainly come from purchased electricity.

During the Reporting Period, in order to effectively manage and reduce the environmental impact of our business, we also made statistics on related emissions and resource use. The detailed data are as follows:

Description	Unit	Amount
Total Greenhouse Gas Emissions	Tons of carbon dioxide equivalent	4,521.09
– Direct Emission (Area 1)	Tons of carbon dioxide equivalent	172.50
– Indirect Emission (Area 2)	Tons of carbon dioxide equivalent	5,166.06
– Greenhouse Gas Deduction (Area 1)	Tons of carbon dioxide equivalent	817.47
Per square meter of greenhouse gas emissions	Tons of carbon dioxide equivalent / square meter	0.06
Sulfur Oxides (SOx)[1]	Kilogram	0.95
Total Energy Consumption	Kilo Watts Hour	7,505,509.91
– Electricity	Kilo Watts Hour	6,908,362.33
– Unleaded Gasoline	Kilo Watts Hour	597,147.58
Energy Consumption per square meter	Kilo Watts Hour per square meter	94.72
Total Water Consumption[2]	Cubic meter	12,672
Water Consumption per cubic meter	Cubic meter / Square meter	0.16

1 Our main air emissions are sulfur oxides

2 Since the Hebei plant uses well water as the main source and the data is difficult to collect, the water consumption only includes the factory located in Jiangsu.

Our business is mainly dealing with wood processing, and the packaging of wood before and after processing has not changed. Therefore, we do not need to use packaging materials.

Energy Saving and Emission Reduction Measures

For the purpose of reducing emissions, the use of LED bulbs is one of the most effective measures. LED bulbs are not only more energy-efficient than traditional lighting tools, at the same time, its use period is also longer, thus it can achieve the effect of energy conservation and emission reduction. In the future, we will continue to replace LED bulbs for various office locations in order to achieve full use of LED bulbs.

At the same time, we have also implemented the following measures to minimize the use of energy:

- Install a high-efficiency motor unit when replacing the machine
- Increase the application of natural light
- Lights and unnecessary energy-consuming devices must be turned off when employees leave to reduce energy consumption and avoid unnecessary energy waste
- Educate employees on the importance of water conservation and reduce unnecessary water waste
- When any leaks occur on any equipment, perform maintenance procedures immediately to avoid waste

In our operations, we mainly rely on electricity and natural gas as our main energy source, and we have not used coal in our factories. Coal is without a doubt the main culprit for polluting the atmosphere undoubtedly, it is necessary to stop the use of coal in order to protect the environment. It must be one of the important measures to reduce emissions, which greatly reduces pollution emissions.

Waste Management

The Group does not produce any harmful or non-hazardous waste during the wood processing. Because the impregnation fluid used in production will be recycled, it will not have any bad influence on the environment. Our main sources of waste are garbage in living and office paper.

As far as the use of paper is concerned, since the nature of our business does not involve a large amount of paper, the main paper consumption is office paper. Nevertheless, we are still working hard to reduce our paper consumption, which includes recycling paper waste as much as possible, double-sided photocopying, bring your own cups and avoid the use of paper cups, etc., reduce waste by reducing waste at the source, recycling, etc.

In addition to the above, the Group only has garbage and office papers in its life, and it does not produce other harmful or non-hazardous waste. The total amount of non-hazardous waste generated by the Group during the Reporting Period was approximately 1.77 tons, while the density of non-hazardous waste per square meter was approximately 0.02 kg.

Products Own Environmental Assessment

The use of impregnation fluids has a significant impact on the Group's business. Therefore, the impact of the impregnation fluids on the environment cannot be ignored. In order to ensure that the impregnation fluids does not adversely affect the environment, our products pass the 175 substances teste on "Substances of Very High Concern, SVHC" under the European REACH[1] Regulation (Regulation (EC) No. 1907/2006). The regulation was promulgated by the European Parliament and the European Commission to manage the safety of chemicals and their potential impact on the human body and the environment.

1 REACH is the abbreviation for the "Registration, Evaluation, Authorization and restriction of Chemicals" regulation.

However, chemical contaminants and the formation of impregnation liquids generated by the Group's wood processing involve the use of chemicals such as formaldehyde and urea-formaldehyde glue, which may be inherently harmful or toxic. However, the production of chemical solutions and impregnation fluids do not cause any environmental or product safety problems because the chemical solutions and impregnation fluids produced during the production process are essentially harmless or non-toxic or otherwise restricted to use during wood processing, and all the impregnation fluids will be impregnated and absorbed into the Group's treated wood products during the wood processing. There are no unused impregnation fluids and other unused toxic, harmful and/or restricted chemicals used in the production process.

PEOPLE ORIENTED

To develop the Company in a good and long-term and in order to meet the core values in our corporate culture at the same time, talent must be one of the key development areas. The Group has always adhered to the principle of "people-oriented" and treats our employees with charity and generosity. We emphasize the personal development of employees, understand that employees have goals and needs at different stages of their careers, and hope that through the arrangement of suitable positions and regular training activities, each employee's strengths can be utilized to discover the individual potential of employees. At the same time, to provide a comprehensive remuneration and welfare system for employees, so that all aspects of employees are fully protected, so as to achieve the purpose of retaining talents and the ultimate goal of the Group's sustainable development, so that employees can work confidently, happily and safely.

Talent Recruit

As mentioned in last year's report, we have always viewed the Company's employees as the most important asset. We have faced the continuing shortage of labor and have been working hard to attract and retain talented people in the past year, in order to absorb more talents in the current competitive human resources market. In terms of strategy, we still adhere to the principle of "fairness" and hire employees through different channels. In the recruitment process, we promise not to consider nationality, gender, age, family status and other work abilities not related to the employees' ability or qualification factors for that job when hiring employees. At the same time, the Group will not allow the recruitment of child labor.

We look at the achievements and achievements of the Group in the past year. The wisdom, hard work and commitment of all employees are absolutely indispensable. In the future, we will continue to work hard to maintain the current "people-oriented" approach so that companies can continue to progress.

Competitive Remuneration System

To achieve the goal of pooling employee strength and retaining talented people, a competitive remuneration and welfare system is an important foundation. In the past year, we continued to examine the existing remuneration and welfare systems to provide employees with comprehensive protection and ensure that employees can work for the Company with confidence.

In addition to paying social insurance and housing accumulation funds for employees as required by regulations, including social insurance such as pensions, medical care, and unemployment and housing accumulation funds, we also ensure that employees' salaries are maintained at a reasonable level. The nature of the job and the responsibility are used to determine the remuneration and will also be reviewed regularly to ensure the remuneration system is in line with the market level. In addition, our human resources department also conducts regular performance assessments of employees as a benchmark to promote employees and adjust salary.

For some employees may need to work outside normal working hours, we will also provide overtime pay to them. We strictly abide by the statutory employment standards in terms of wages and working hours and rest hours, and maintain appropriate internal standards and codes of practice. In addition, we also strictly abide by the "Occupational Disease Prevention Act" and other regional regulations. We regularly arrange physical examinations for employees, hoping that they can maintain a healthy body and protect their health and safety while working hard.

During the Reporting Period, the details of the employees' distribution and turnover of the Group are as follows:

Employees' Distribution Analysis	
Total Employees	156
Distribution by Gender	
Men	88
Women	68
Distribution by Employment Type	
Full-time	154
Part-time	2
Distribution by Employment Category	
Senior Management	10
Middle Management	31
General and Technical	115
Distribution by Age	
21 to 30 years old	73
31 to 40 years old	60
41 to 50 years old	14
51 to 60 years old	8
Over 60 years old	1

Balance Employees' Lives

Many of our employees have to work away from their hometowns in our Company. We fully understand that employees may feel homesick. Therefore, we hold a series of "warming up" activities for employees every year. We hope that employees can feel the Company's love and care for them even they are in places far away from home. Every year, we offer holiday gifts to employees at different festivals, such as mooncakes for the Mid-Autumn Festival, gift packages for the Women's Day, and red packets for the Lunar New Year. In addition, we also send gifts, maternity gifts, and benefits to employees for pre-employment health examinations. We hope that employees can feel a sense of belonging to the Company when they work, so that the Company is not just a workplace to them.

In addition, we arrange a large-scale employee travel event every year, hoping to help employees to relax outside of their work through travelling. The employee and the Company's management will also be able to have an in-depth understanding of each other and strengthen teamwork by having travel activities together. At the same time, we will continue to listen to the needs of all employees and strive to create a good working environment, and actively adopt employee suggestions and opinions to promote communication between the two parties. The Company has a general manager's mail box, employees can send suggestions or opinions directly to the management through the mail box. The Human Resources Department will communicate with employees from time to time through the forum, e-mails and questionnaires, etc., in order to understand the situation of the employees and, if necessary, report to the General Manager Office.

Caring Culture

As mentioned above,"people-oriented" is an important concept of our business operations. To promote a healthy and harmonious corporate culture and to enrich the lives of our employees outside of work, we have developed a series of benefits based on the theme of "Happy Work, Healthy Living". The employees' physical and mental health activities advocated that all employees pay attention to health and create a delightful atmosphere.

Employees' Birthdays Celebrations

We have been holding birthday celebrations for our employees for many years. We prepare birthday cakes and practical gifts for employees who have birthdays for the month each month. We hope employees appreciate the Company's care for them even they are working stressfully.

Team Construction Activities

Incentives are intangible motivation that not only enable employees to have superior performance but also stimulate their own potential. We fully understand this principle, therefore, during the Reporting Period, we organized the "Team Morale Enhancement Campaign". We hope that through a series of activities and training, we can expand the potential of each employee, enhance and strengthen their individual psychological quality, and enable team members to experience the relationship between employees and the Company deeper, which makes the team more cohesive, thereby inspiring employees' morale.

SUPPORT EMPLOYEES' DEVELOPMENT AND GROWTH

Talent is the most precious asset in business operations. At the same time, it is also the heart of a company. Without talent, the Company is hard to continue to operate. As a result, the Group has always paid great attention to the professional development of its employees. We understand that improving the overall quality and professional skills of employees can enhance the employees' own working ability, it can also help to improve the overall competitiveness of the Group. It can protect the occupational health and safety of employees. We hope that by respecting and supporting the growth of our employees, we will lead our employees to integrate into the corporate culture of China Wood, create a comfortable and comfortable working environment for our employees, and develop together with us. Our efforts over the years have been highly appreciated by our employees. In the future, we promise to continue our efforts to provide comprehensive development for our employees.

In order to improve the quality of employees and management personnel, and at the same time improve the Company's management standards and ensure the sustainable development of the Company, effective training must be carried out. The basis for good training is a feasible, complete and practical training program. The human resources management department has developed and implemented a series of training activities during the Reporting Period. The following are the key training activities we conducted during the Reporting Period:

Newly-recruited Employees Training
Eliminate the strangeness of new employees
Educate our culture and values
Introduce our product knowledge
Introduce the Company's management and main organizational structure
On-job Training
<Spiritual Civilization>
<The Importance of Responsibility>
<Corporate etiquette culture>
<Quality of Excellent Employees in Enterprises>
<5S on-site management training>
Middle Management Training
Management, Goal Setting, Communication Training

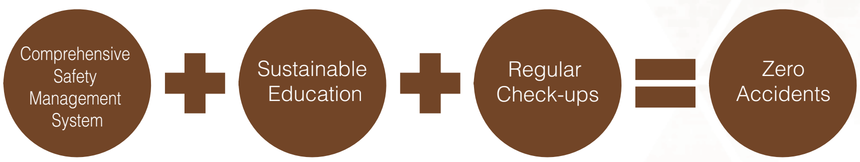
Our human resources department also prepares the Company's annual training program based on the employees' existing skills and the needs of the training courses. At the same time, we also regularly review training policies and tactics, hoping to help employees in different job ranks so as to develop their potential and their strengths. On the other hand, we also regularly evaluate the effectiveness of training activities and evaluate the performance of training instructors, hoping to provide employees with the most suitable training.

Employees Training Analysis	
Total Training Hours	2,862 hours
Average Training Hours	18.3 hours per employee
Training Hours Distribution by Gender	
Men	1,752 hours
Women	1,110 hours
Training Hours Distribution by Employment Category	
Senior Management	30 hours
Middle Management	500 hours
General and Technical	2,332 hours

PREVENTION OF EMPLOYING CHILD LABOR AND FORCED LABOR

According to the "Relevant progress in combating child labor" published by the International Labor Organization in the past, the problem of child labor has been drastically reduced in the past decade. However, child labor is still a very serious problem. Many child laborers are also engaged in high-risk industries. The Group has formulated a set of established working procedures to strictly review the personal data of employed persons and prevent the employment of child labor. In the future, we will continue our internal discussions on child labor and forced labor issues, and continue to improve the Group's human resources policy and provide relevant training for its employees.

OCCUPATIONAL HEALTH AND SAFETY



As mentioned earlier, employees are our most important assets. We regard the maintenance of the safety and health of every employee as one of the most important tasks. We adhere to the safe work policy of "safety first, prevention-oriented, and comprehensive governance" and integrate the Group's "respect for people" concept into safe production. Therefore, we have established a comprehensive safety management system that includes specific safety guidelines in various work processes, training and daily safety checks on various equipments. During the Reporting Period, Jiangsu AMS has been awarded the certificate of "Safety Production Standardization Level 3 Enterprises (Other Light Industry)" by the local government department. This shows that our efforts in safety have been highly praised.

As a responsible employer, our safety engineers continued to make risk assessments on occupational safety during the year, and continued to implement improvement measures to promote occupational safety and health information to different employees. During the Reporting Period, we successfully achieved the goal of "zero accidents". It is not easy to successfully create a "zero accidents" working environment. In the future, we will continue to aim for this. At the same time, we will abide by the laws and regulations of the country and related departments, and major policies, to build a sustainable working environment.

In terms of laws and regulations, the “Safe Production Law of the People’s Republic of China” and the “Fire Protection Law” are the main laws that apply to the Group’s supervision and management of safety. During the Reporting Period, as far as the directors are aware, the Group has not been subject to significant administrative sanctions or penalties for breaching the relevant laws and regulations concerning the provision of a safe working environment and protection for employees from occupational hazards. In addition, the Group has not received any complaints or notices from the regulatory authorities regarding the relevant laws and regulations concerning security breaches.

Comprehensive Safety Management System

The responsibility system for safety production is the basic and the most important management system for safety production. It clearly describes the safety production responsibilities of various departments and positions, distinguishes responsibilities, and fulfills their responsibilities, thus forming a rigorous and comprehensive safety production management system. At the same time, due to the intricate and complex relations among various units, parts, posts and links in the production process, they are interrelated and mutually restrictive. Therefore, a sound safety production management system is even more important. Under the leadership of the Company’s management and our registered safety engineers, the Group has established a comprehensive safety management system that includes the “Regulation and Maintenance System for Dust Meters and Noise Instruments”, “Fire Fighting Equipment Management System” and “Fire Control Room Duty Management Procedures” and the descriptions of various safety operation procedures, etc. We hope that through the standardized management, the safety management loopholes will be closed, the production will be carried out in an orderly manner, and the "zero accidents" working environment will eventually be achieved.

Safety Training

We place great emphasis on raising the safety awareness and skills of all employees. This is an important basis for maintaining a sound safety system. During the Reporting Period, we provided employees with training in safety education in different areas, focusing on the following points:

- Laws and regulations related to safety production, firefighting, occupational health and other related aspects;
- The Company’s safety production management system;
- Accidental case explanation;
- Matters needing attention in daily work environment;
- Emergency escape and evacuation guidelines;
- Use of fire-fighting equipment;
- Traffic safety of employees commuting to and from work.

Continuing Risk Management

Risk management is an important part of ensuring occupational safety. We can identify and assess occupational health and safety risks through identification of the source of danger, assessment of identified risks, and appropriate risk control measures. If there are significant risks in the operation of the Group, we will definitely eliminate or reduce the risks with maximum effort, do our best to reduce personal hazards and property losses, and maximize the value of the Company by minimizing the cost of risks.

Therefore, we have established a risk management working group composed of quality directors and quality supervisors. At the same time, the Group has also established a Risk Management Committee which is composed of senior management of the Group. During the Reporting Period, we mainly used the empirical method and analogy method to identify the potential risks of the Group, analyzed the possibility of risk occurrence, the frequency of exposure to hazardous environments and the consequences of accidents, and implemented relevant management plans to reduce the identified risks. At the same time, each department will also be responsible for regularly reviewing the effectiveness of the current management plan to see if the plan can achieve the goal of occupational health and safety.

Safety Guidelines

In order to ensure that production facilities meet applicable safety standards, our safety management system has set out guidelines for the safe operation of equipment related to the Group's operations. It specifies the wearing requirements of operators, routine inspection procedures, and inspection procedures of equipment before and after use etc. A detailed instruction manual will help to reduce the chance of accidents and also ensure standardized safety management. All our production facilities must be thoroughly tested before they can be put into production. In addition, operators of our production facilities must pass comprehensive training before being permitted to the use of such facilities.

Contingency Plans

To ensure that we can quickly respond to various accidents and potential emergencies that may be faced in the production and service process, we have formulated a comprehensive contingency plan that analyzes the major risk factors for us, and then develop appropriate emergency measures, hoping to implement emergency response plans effectively through early emergency preparedness to prevent or reduce the impact on the environment and related diseases, injuries and possible occupational health and safety losses.

To enable the accident plan to start more effectively when an accident occurs, we have also organized an emergency rescue command group as an emergency leadership team responsible for the execution, organization and command of emergency plans when an accident occurs. In addition, for those personnel with special skills in the emergency group, we have already arranged corresponding training, especially for the key personnel. They have the ability to handle emergency situations and emergency events, such as the use of fire fighting equipment, first aid technology, etc.

We also place great emphasis on investigations after the accident. When accidents and emergencies occur, the departments involved in the incident need to prepare the accident report. Through the way of post-review, we further understand the causes of the accident and analyze the accident. We are committed to "Three Not" principles (In other words, when investigating and handling accidents, we must adhere to the principle that unclear cause of the accident will not be forgiven, and the principle that the person responsible for the accident and the masses have not been educated will not be forgiven, and any accidents caused by not having practical preventive measures will not be forgiven) and do everything that may reduce unexpected accident rates.

During the Reporting Period, we have also conducted a comprehensive fire drill and emergency drill. Through actual drills, employees' ability to escape and save themselves at the scene of the fire was enhanced, employees' use of fire-extinguishing tools was improved, and everything was done to reduce human and property losses. Led by the leadership of the Company, the event was very successful.

In addition to the above, we also implement the following measures to maintain a safe and healthy working environment and avoid any unnecessary injuries or accidents:

- In order to improve indoor air quality and the level of safety knowledge of all employees and reduce the chance of fire, smoking is prohibited in all areas of our workshop without exception
- Promote a proactive and risk-prevention prevention culture and encourage each employee of the Group to be responsible for work safety
- Check for any insecurity and fix it immediately
- Understand the latest developments in occupational safety legislation and regulations and take additional measures as necessary
- Hire a person with registered safety engineer qualification to strengthen safety management

SUPPLY CHAIN MANAGEMENT

In order to achieve the Group's mission in sustainable development, maintaining and managing a sustainable and reliable supply chain is critical to the Group. We incorporate the mission and philosophy of sustainable development into the supplier's review process, and conduct a comprehensive assessment of potential suppliers and existing suppliers to maintain a good supply chain management. Therefore, we must conduct rigorous supplier review procedures before any suppliers purchase raw materials, to ensure that the products provided by suppliers meet the production requirements and maintain high quality products and services.

Principles for Selecting Suppliers

The raw materials needed for the production of the Group are provided by the suppliers who have passed the assessment. We used the "Supplier Assessment Record Sheet" to conduct regular assessment for all suppliers, the Group's supply chain center, quality management center, production management center and R & D center will participate in the supplier assessment process, by evaluating whether the supplier has a legitimate business procedures for its quality control system, and provide ratings for the Company's effectiveness, delivery status after the evaluation process. Then they can formally become our qualified suppliers and be entered into the "Qualified Supplier List" for us to monitor the supply chain and product quality. The Group also has a phase-out mechanism for supply chain management. For unqualified suppliers, we will suspend use until such time the supplier's situation has improved and met our requirements.

PROHIBITING CORRUPTION, FRAUDULENT BEHAVIOR

We have always been committed to operating our business in an honest and trustworthy manner, whether it is for the Company, its partners, its customers, its suppliers, or even its competitors. We will use honesty and trustworthiness as our core principles. For this purpose, it has been referred to in the "Employee Handbook" and "Corruption and Advocacy Management System" issued by the Group. To prevent bribery, corruption, money laundering, and conflicts of interest by all employees when they conduct business activities. In order to further improve employee awareness of professional ethics, anti-corruption, and awareness of risk prevention of corruption, we also require employees to seriously study the relevant provisions of the Employee Handbook, and employees must not be corrupted, bribe or be bribed. If they use their positions to engage in malpractice, bribery, or serious malfeasance, they will be severely punished. At the same time, we also carried out relevant training to further raise employees' awareness of anti-corruption.

On the other hand, we continue to practice the principle of good faith with the highest standards and prohibit any unethical corruption, bribery or fraud in our business operations. To combat and eliminate all unlawful acts, we have established an "Employee Complaint Management System" for employees, providing a variety of complaint methods, such as anonymous reporting by employees through the suggestion box to reduce the risk of illegal activities that may be involved in business activities (e.g. purchasing, sales, maintenance and quality assurance).

During the Reporting Period, the Group did not have any violations related to violation of relevant anti-corruption laws and regulations

GIVE BACK TO SOCIETY

In order to enable sustainable development of enterprises, it is inseparable from the support of the community and the people. As a responsible Company, we continue to practice public welfare, actively participate in various charitable and social charities, and care for disadvantaged communities.

During the Reporting Period, we organized a blood donation campaign to encourage employees of the Company to go to local hospitals for blood donation. Blood donation is a meaningful activity that not only helps more patients get assistance, but also enables our employees to improve their internal motivation through these aid activities. Through participating in social charity activities, the Company's caring culture is enhanced.

LOOKING FORWARD

During the Reporting Period, we continue to exert our social responsibility, actively provide quality services to our guests, actively participate in community development, and plan to assist disadvantaged groups through charitable donations in the future, pay attention to the development and growth of employees, and create harmony and comfort. The working environment provides employees with training and development projects and grows with employees.

Looking ahead, we will continue to develop more projects, insist on providing better services to customers, adhere to the highest ethical standards, and explore talents. At the same time, we will also be more active in participating in community activities and reducing the environmental impact of the business process. The Group will continue to listen to different stakeholders' feedback, continue to improvement, adhere to the balance between social, environmental and development relations, and implement sustainable development.

The Group would like to take this opportunity to express its sincere gratitude to all stakeholders for their support and trust. We will continue to fulfill corporate social responsibility, uphold the concept of sustainable development, and make a great contribution to the sustainable development of society.

THE STOCK EXCHANGE GUIDELINE CONTENT INDEX FOR ESG REPORT

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
A. Environment			
Level A1: Emissions			
General Disclosure:	Regarding emissions and emissions of greenhouse gases, emissions to water and land, generation of harmful and non-hazardous wastes etc.: (a) Policies; and (b) Compliance with relevant laws and regulations that have a significant impact on the issuer	"AMS" - Love and Protect the Big Primitive Forest. During the Reporting Period, the Group did not find any serious violations of laws and regulations that had a significant impact on the Group	34
Key Performance Index A1.1:	Types of emissions and related emissions data	Greenhouse gas emissions and resource utility	36
Key Performance Index A1.2:	Total greenhouse gas emissions (in tons) and (if applicable) density (if calculated per unit of output, per facility)	Greenhouse gas emissions and resource utility	36
Key Performance Index A1.3:	The total amount of hazardous wastes generated (in tons) and (if applicable) the density (if calculated per unit of output, per facility)	The Group did not generate any hazardous wastes during its operations	Not Applicable
Key Performance Index A1.4:	The total amount of non-hazardous wastes generated (in tons) and (if applicale) the density (if calculated per unit of output, per facility)	Greenhouse gas emissions and resource utility	36
Key Performance Index A1.5:	Describe emission reduction measures and results	"AMS" - Love and Protect the Big Primitive Forest	34
Key Performance Index A1.6:	Describe ways to treat hazardous and non-hazardous wastes and measures to reduce production and the results.	Waste management	37

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
Level A2: Resource Utility			
General Disclosure:	Policies for the effective use of resources including energy, water, and other raw materials.	"AMS" - Love and Protect the Big Primitive Forest	34
Key Performance Index A2.1:	The total consumption (in thousands of kWh) and density (for example, calculated in units of production, per facility) of direct and/or indirect energy (such as electricity, gas or oil) by type	Greenhouse gas emissions and resource utility	36
Key Performance Index A2.2:	Total water consumption and density (if calculated in units of production per facility).	Greenhouse gas emissions and resource utility	36
Key Performance Index A2.3:	Describe energy use efficiency plans and results	"AMS" -Love and Protect the Big Primitive Forest	34
Key Performance Index A2.4:	Describe any problems that may arise from the application of water, as well as plans to improve water use efficiency and the results achieved	"AMS" -Love and Protect the Big Primitive Forest	34
Key Performance Index A2.5:	The total amount of packaging materials used in finished products (in tons) and (if applicable) per unit of production	The Group did not produce any packaging materials in its operations Greenhouse gas emissions and resource utility	36
Level A3: Environment and Natural Resources			
General Disclosure:	Reduce the issuer's policies that have a significant impact on the environment and natural resources	"AMS" -Love and Protect the Big Primitive Forest	34
Key Performance Index A3.1:	Describe the significant impact of business activities on the environment and natural resources and have taken actions to manage the impact	"AMS" -Love and Protect the Big Primitive Forest	34

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
B. Society			
Employment and Labor Practices			
Level B1: Employment			
General Disclosure:	Regarding remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other benefits: (a) policies; and (b) information on compliance with relevant laws and regulations that have a significant impact on issuer	People Oriented	38
Key Performance Index B1.1:	Total workforce by employment type, age group and geographical region	Employees' Distribution Analysis	39
Key Performance Index B1.2:	Employee turnover ratio by age group and region	No figures to be provided during this year	Not Applicable
Level B2: Health and Safety			
General Disclosure:	Regarding providing a safe working environment and protecting employees from occupational hazards: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer	Occupational health and safety	42
Key Performance Index B2.1:	Numbers and percentages of deaths related to work	Occupational health and safety During the Reporting Period, there were no deaths due to work.	42
Key Performance Index B2.2:	Loss of working days due to work injuries	Occupational health and safety During the Reporting Period, there were no deaths due to work	42
Key Performance Index B2.3:	Describe the occupational health and safety measures adopted, and the related implementation and monitoring methods	Occupational health and safety	42

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
B. Society			
Employment and Labor Practices			
Level B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills in performing job duties. Describe training activities	Support employees' development and growth	41
Key Performance Index B3.1:	Percentage of trained employees by gender and employee category (eg senior management, middle management, etc.).	Employees training analysis	42
Key Performance Index B3.2:	The average number of hours each employee completed training by gender and employee category	Employees training analysis	42
Level B4: Labor Standard			
General Disclosure:	For the prevention of child labor or forced labor: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	Prevention of employing child labor and forced labor	42
Key Performance Index B4.1:	Describe measures to review recruitment practices to avoid child labor and forced labor	Prevention of employing child labor and forced labor	42
Key Performance Index B4.2:	Describe the steps taken to eliminate the situation when a violation is found	We will set up a special task force to immediately identify illegal child labor or forced labor, protect child labor or forced labor, punish relevant employees/suppliers, and inform the local social welfare department to ensure that the problem is properly handled as soon as possible.	Not Applicable

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
Operating practices			
Level B5: Supply Chain Management			
General Disclosure:	Management of supply chain environmental and social risk policies	Supply chain management	45
Key Performance Index B5.1:	Number of suppliers by region	All suppliers of the Group are located in China	Not Applicable
Key Performance Index B5.2:	Describe the practice of hiring suppliers, implement the number of suppliers with relevant practices, and the methods of implementation and supervision of relevant practices	Supply chain management	45
Level B6: Products Liability			
General Disclosure:	Regarding health and safety, advertising, labelling and privacy issues and remedies for the products and services provided: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer	Producty responsibility and technical development	34
Key Performance Index B6.1:	Percentage of total products already been sold or delivered that need to be recovered for safety and health reasons	During the Reporting Period, no product was recovered due to safety and health reasons.	Not Applicable
Key Performance Index B6.2:	Number of complaints received about products and services and how to deal with them	During the Reporting Period, no complaints were received regarding products and services.	Not Applicable
Key Performance Index B6.3:	Describe the practices related to the maintenance and protection of intellectual property	No figures to be provided during this year	Not Applicable
Key Performance Index B6.4:	Describe the quality verification process and product recovery procedures	No figures to be provided during this year	Not Applicable
Key Performance Index B6.5:	Description of consumer data protection and privacy policies, and related enforcement and monitoring methods	No figures to be provided during this year	Not Applicable

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter / Statement	Pages
Operating practices			
Level B7: Anti-corruption			
General Disclosure:	For the prevention of bribery, extortion, fraud and money laundering: (a) Policy; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer	Prohibiting corruption, Fraudulent behavior	46
Key Performance Index B7.1:	The number of corruption lawsuits filed against the issuer or its employees during the Reporting Period and their verdicts	During the Reporting Period, the Group did not find any serious violation of relevant laws and regulations that have a significant impact on the Group	Not Applicable
Key Performance Index B7.2:	Describe preventive measures and whistle-blowing procedures, as well as related implementation and monitoring methods	Prohibiting corruption, Fraudulent behavior	46
Level B8: Investing in the Community			
General Disclosure	The policy on community involvement is to understand the needs of the communities in which they operate and to ensure that their business activities take into account the interests of the community	Give back to society	46
Key Performance Index B8.1:	Focus on areas of contribution (such as education, environmental issues, labor needs, health, culture, sports).	No figures to be provided during this year	Not Applicable
Key Performance Index B8.2:	Use resources (such as money or time) in focused areas	No figures to be provided during this year	Not Applicable

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2017.

Report of the Directors

PRINCIPAL ACTIVITIES

The principal activities of the Company are processing, manufacturing and sale of processed wood products and rendering of Wood Processing Procedure service. The principal activities and other particulars of the subsidiaries of the Company are set out in note 14 to the financial statements.

BUSINESS MODEL AND STRATEGY

All the Group's Processed Wood Products are processed by the Group's Wood Processing Procedure (as defined in the MD&A section of this report), by which raw wood panels pass through an impregnation procedure of the Group's own impregnation fluid made with biological synthetic resin technologies. The Group applies the Wood Processing Procedure to poplars, a fast-growing tree species that withstands long, cold winters and short summers. Since poplars have a relatively short growth cycle of about 7 to 10 years, the supply of poplars in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure improves the hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti-corrosiveness, bending strength and elasticity of poplar wood. In addition, wood panels that have been processed through the Group's Wood Processing Procedures are strengthened in terms of moisture resistance and flame resistance. Natural wood grain and figure are also preserved in the end-products. After the Group's Wood Processing Procedure, poplar can be used as a substitute of natural solid woods with wide application in the field of furniture making and indoor furnishing.

The Group operates two production plants in the PRC, situated at Wei County, Handan City, Hebei Province and Huai'an City, Jiangsu Province for the processing and manufacturing of its products and rendering of Wood Processing Procedure service. The Group's Processed Wood Products are predominantly sold through our own sales and marketing department. The Group also operates an in-house procurement department to source the major production materials for the production of its Processed Wood Products.

Details of the Group's business performance and financial review for the year ended 31 December 2017 are set out in the "Management Discussion and Analysis" section of this annual report.

The Group seeks to promote the market recognition of our Processed Wood Products in the PRC by achieving the following business objectives, including: (i) expansion of the Group's production capacity and integrated manufacturing operation; (ii) expansion of the application spectrum and improvement of the quality of the Group's Processed Wood Products; and (iii) expansion of the Group's sales network.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the section of Financial Highlights, Chairlady's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with relevant authorities effectively through effective communications.

During the year, the Group has complied, to the best of our knowledge, with, in relation to wood processing, the Regulations for the Implementation of the Forestry Law of the PRC (中華人民共和國森林法實施條例), the Regulations of Hebei Province on the Administration of Timber operation, processing and transportation (河北省木材經營加工運輸管理辦法); in respect of environmental protection, PRC Environmental Protection Law (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulation on environmental protection; and, in respect of labour, Labour Contract Law of the PRC (中華人民共和國勞動合同法), Social Insurance Law of the PRC (中華人民共和國社會保險法).

The Group also complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group in Hong Kong. No important event affecting the Group has occurred since the end of the year.

Environmental policies and performance

Emissions

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance of the prevailing environmental protection laws and regulations. The formaldehyde emission of the Group's Processed Wood Products is low (5=0.5mg/L) and satisfies the formaldehyde emission standards for E0 grade, being the highest standard under the GB/T18102-2007 Standard and LY/T1700-2007 Standard (being PRC national standards limiting harmful substances in laminate floorings and wood based flooring for ground with heating system, respectively). Our products also passed a test for one hundred and seventy-five (175) substances on the Candidate List of Substances of Very High Concern ("SVHC") for authorisation and comply with the European REACH (Regulation (EC) No.1907/2006 of the European Parliament and of the Council of the European Union concerning, among others, registration, evaluation, authorisation and restriction of chemicals) requirements on the use of chemical substances and their potential impacts on both human health and the environment. In April 2014, the Group's products passed the requirements promulgated by European Chemicals Agency ("ECHA") as well as the tests for 19 heavy metal elements, which further proved that the Group's products are green, eco-friendly and pollution-free.

The Group is also subject to PRC environmental laws and regulations, including the PRC Environmental Protection Law, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste and other relevant laws and regulation on environmental protection. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. The Group's production facilities have undergone inspection and have been approved by the relevant environmental protection authorities. During the reporting period, the Group had fully complied with the relevant environmental laws and regulations.

The Group has adopted environmental protection measures and established a reliable system for environmental protection to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust etc. in the course of production, construction or other activities in accordance with these environmental laws and regulations.

The principal wastes produced and emitted by the Group during its production process comprise principally waste water, wood dust, wood scraps and smoke. The Group has installed dust removal equipment at its production plant at Handan and Huai'an. For waste water, the Group has installed waste water treatment facilities to recycle those polluted water for its production use. As for smoke, the Group has installed hydro-desulfurisation and dust removal equipment to process the smoke generated from the boilers before they are emitted.

The production of the chemical solution and the formation of impregnation fluids for the use in the Group's Wood Processing Procedures involve the use of chemicals, such as formaldehyde and ureaformaldehyde glue, which may be harmful or toxic in nature but does not include chromate copper arsenate, a wood preservative which is harmful to the environment and health. Nevertheless, the production of the chemical solution and the impregnation fluids do not result in any environmental or product safety problem as the resultant chemical solution and impregnation fluids produced after the production process are not harmful or toxic in nature or otherwise restricted from use for processing of woods, and all the impregnation fluids will be impregnated into and absorbed by the Group's Processed Wood Products in the Wood Processing Procedures, and no unused impregnation fluid and other unused toxic, harmful and/or restricted chemicals will be disposed of during the production process.

Use of resources

The Group seeks to reduce its material consumption during its production process. The Group's Processed Finger Joint Wood Panels are produced from laminating and pressing cut-offs and small pieces available from the production of Processed Wood Panels.

The Group has also implemented energy saving practices in its production facilities. The Group keeps exploring additional energy-saving measures to improve our production efficiency.

Principal Risks and Uncertainties Facing the Company

The following lists out the principal risks and uncertainties facing the Company in achieving business objectives and the Group's approach to tackle them:

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realised that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyse on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 72 of this annual report.

The Directors recommend the payment of a final dividend of HK$0.02 per ordinary share for the year ended 31 December 2017 (2016: HK$0.02 per ordinary share) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Monday, 28 May 2018, subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Thursday, 17 May 2018. The final dividend will be payable on or around Friday, 8 June 2018.

None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 May 2018 to Thursday, 17 May 2018 (both days inclusive), during which period no transfer of the shares will be effected. The holders of shares whose names appear on the register of members of the Company on Thursday, 17 May 2018 will be entitled to attend and vote at the annual general meeting of the Company. In order to qualify for attending and voting at the annual general meeting of the Company or any adjournment thereof, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by no later than 4:00 p.m. on Thursday, 10 May 2018.

The register of members of the Company will be closed from Friday, 25 May 2018 to Monday, 28 May 2018 (both days inclusive), during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 24 May 2018.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 71.2% of the total sales. The top five suppliers accounted for approximately 73.9% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 47.4% of the total sales and the Group's largest supplier accounted for approximately 50.7% of the total purchases for the year.

At no time during the year have the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended 31 December 2017 and the financial position of the Company and the Group as at 31 December 2017 are set out in the financial statements on pages 72 to 128.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(a) to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, and retained profits, if any, which in aggregate amounted to RMB242.4 million as at 31 December 2017.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

DONATIONS

During the year, the Group did not make charitable and other donations (2016: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27(c) to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors

Ms. Yim Tsun *(Chairlady)*
Mr. Li Li *(Chief Executive Officer)*

Independent non-executive Directors

Mr. Zhang Dali
Mr. Pu Junwen
Mr. Lau Ying Kit

Biographical information of Directors of the Group are set out from pages 20 to 21 of this annual report.

Pursuant to article 108(a) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Ms. Yim Tsun and Mr. Zhang Dali will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "Annual General Meeting").

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and each of the independent non-executive Directors has enter into an appointment letter with the Company for an initial term of three years, all commencing from 6 January 2017 to 5 January 2020, and will continue thereafter. The service contracts and appointment letters may be terminated by either party giving not less than three months' prior notice in writing, and is subject to termination provisions therein and retirement and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company or any other applicable laws from time to time whereby he/she shall vacate his/her office.

None of the Directors proposed for re-election at the Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DISCLOSURE OF CHANGE IN INFORMATION ON DIRECTORS

Pursuant to rule 13.51(B) of the Listing Rules, the change of information on Directors is as follow:

Mr. Lau has been appointed as an independent non-executive director of United Strength Power Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2337) since September 2017. Mr. Lau has resigned as chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 3683) since November 2017.

PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the year under review and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2017, no claims were made against the Directors.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in notes 8 and 9 to the financial statements, respectively.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND ITS ASSOCIATED CORPORATION

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

(i) The Company

Name of Director	Capacity/ Nature of Interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Ms. Yim Tsun *(Note)*	Interests in controlled corporation	Long position	673,250,000	67.3%

(ii) Associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding in the associated corporation
Ms. Yim Tsun	Brilliant Plan Holdings Limited *(Note)*	Beneficial owner	100	100%

Note: The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in 673,250,000 shares held by Brilliant Plan Holdings Limited under SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules on the Stock Exchange:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Brilliant Plan Holdings Limited *(Note)*	Beneficial Owner	673,250,000	67.3%

Note: The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in the Shares held by Brilliant Plan Holdings Limited under the SFO.

Save as disclosed above, as at 31 December 2017, other than the Directors and chief executives of the Company whose interests are set out in the paragraph "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures and its Associated Corporation" above, the Company had not been notified by any persons who had interests or short positions in the shares, underlying shares and debentures 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 which were recorded in the register required to be kept by the Company under section 336 of the SFO.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

Share Option Scheme

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders passed on 20 December 2013 and became unconditional upon the Listing of the Company's shares on the Stock Exchange. The principal terms of which are set out in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the prospectus of the Company dated 30 December 2013 ("Prospectus").

The purpose of the Share Option Scheme is to provide incentives to Participants (as defined in the following paragraph) to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group.

The Board may, at its absolute discretion, offer options to subscribe to such number of Shares in accordance with the terms set out in the Share Option Scheme to the following persons (the "Participants"): any individual being an employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive Director or any subsidiary.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group shall not in aggregate exceed 10% of the total number of Shares in issue as at 6 January 2014, i.e. 100,000,000 Shares. No options may be granted to any Participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is granted, which date must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date on which the option is granted; and

(iii) the nominal value of the Share.

The Share Option Scheme will remain in force for a period of 10 years commencing from 6 January 2014 and the remaining life of the Share Option Scheme is 6 years.

There is no option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2017.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 100,000,000, representing approximately 10% of the issued share capital of the Company.

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the year are set out in note 28 to the financial statements. For the year ended 31 December 2017, the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTION

For the year ended 31 December 2017, there was no transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float required by the Listing Rules as at the date of this report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and a connected entity of a Director had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to protect the Group's interest in its business activities, on 20 December 2013, each of Brilliant Plan Holdings Limited ("Brilliant Plan") and Ms. Yim Tsun ("Ms. Yim"), the controlling shareholders of the Company (the "Controlling Shareholders"), have entered into a non-competition deed with the Company (for itself and on behalf of its subsidiaries), pursuant to which each of them shall not, and shall procure that none of its/her close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of processing, manufacturing and sales of Processed Wood Products, and such other business conducted or carried on by the Group from time to time within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time. The Company has received a confirmation from the Controlling Shareholders on their compliance with the non-competition deed for the year ended 31 December 2017.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries, at any time during the year ended 31 December 2017.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2017 are set out in note 23 to the financial statements.

FINANCE LEASE

Details of obligations under finance lease of the Group as at 31 December 2017 are set out in note 24 to the financial statements.

CONTRIBUTIONS TO THE RETIREMENT BENEFITS SCHEMES

Details of contributions to the retirement schemes of the Group are set out in note 6(b) to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the shares of the Company during the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out in the financial highlights section on page 4 of this report.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$229.6 million and will be used as per the Group's planned use of proceeds as stated in the Prospectus. Save as disclosed in this annual report, the Directors do not aware of any material change to its plan on the use of proceeds as stated in the Prospectus.

For details, please refer to the paragraph headed "Use of Proceeds" in the "Management Discussion and Analysis" section of this annual report.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its close associates and none of the directors or employees of Guotai Junan, has or may, have any interest in any securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended 31 December 2017 is scheduled to be held on Thursday, 17 May 2018. A notice convening the Annual General Meeting will be issued and despatched to shareholders on 16 April 2018.

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Yim Tsun
Chairlady

28 March 2018

Independent Auditor's Report

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 72 to 128, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 89 in Note 2 (r).	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue of the Group for the year ended 31 December 2017 principally comprised the sale of wood products to wood panel distributors and furniture manufacturers, and the rendering of wood processing services for wood panel distributors and furniture manufacturers. Revenue from sales of wood products is generally recognised when the self-produced wood products are despatched to and accepted by customers. Revenue from the rendering of wood processing services is generally recognised when the processed wood products are despatched to and accepted by customers upon signing the documents indicating the weight of impregnation fluid consumed. We identified revenue recognition as a key audit matter because revenue is a key performance indicator for the Group and the key driver of gross profit which increases the risk that revenue may be manipulated to meet targets or expectations and because there is a risk that particular terms of sale may not be met and, as a result, revenue may be recognised in the incorrect period.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to the recognition of revenue from the sale of wood products and the rendering of wood processing services, respectively; • inspecting sales contracts with customers for the sale of goods and the rendering of services, on a sample basis, to obtain an understanding of the contract terms and the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • comparing sales transactions, on a sample basis, with the underlying delivery notes for goods self-produced and processed for customers, monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing and cash receipts and obtaining audit confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing, on a sample basis, to assess whether the related revenue was recognised in the Group's revenue recognition accounting policies;

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 89 in Note 2 (r).	
The Key Audit Matter	**How the matter was addressed in our audit**
	• performing site visits and interviewing management of significant new customers to gain understanding of the operations of these new customers and assessing whether the revenue recorded by the Group during the current year in respect of these new customers was consistent with the perceived size and nature of the new customers' operations; • comparing sales transactions just before and after the financial year end, on a sample basis, with the terms as set out in the underlying sales contracts and the underlying goods delivery notes for goods self-produced and the signed documents indicating the weight of impregnation fluid consumed during wood processing and monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing, to assess if the related revenue was recognised in the appropriate accounting period; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period in accordance with the requirements of the prevailing accounting standards; and • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Assessing potential impairment of non-current assets held by certain subsidiary of the Group	
See notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on page 84 in Note 2 (i) (ii).	
The Key Audit Matter	**How the matter was addressed in our audit**
During the first half year of 2017, a subsidiary of the Group located in Handan, Hebei Province, was required by the local government authority to dismantle its 10 tons of coal-fired boilers by end of October 2017 in compliance with the requirement of air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017. In view of this, the Group temporarily ceased the operation of its coal-fired boilers. The directors identified indicators of potential impairment of non-current assets held by this subsidiary and performed impairment assessments to these assets as at 31 December 2017 based on the valuation report issued by an independent external valuer engaged by the Group, using value in use model and fair value less costs of disposal model. The impairment assessment involves a significant degree of management judgement, particularly in relation to the key assumptions adopted, including the contract prices, estimated newness rate of the assets, obsolescence rate and the discount rate applied in the discounted cash flow forecast, price volatility of certain assets.	Our audit procedures to assess potential impairment of non-current assets included the following: • assessing the Group's impairment assessment model, which included assessing the impairment indicators identified by the management, the identification of the cash generating unit ("CGUs") and the allocation of assets to those CGUs; • assessing the external valuer's qualifications, experience and expertise and considering their objectivity and independence; • obtaining the valuation report prepared by the external valuer engaged by the Group on which the impairment of certain non-current assets are based; • evaluating the valuation methodology adopted by the external valuer with reference to the requirements of the prevailing accounting standards, with assistance of our internal valuation specialists; • involving our internal valuation specialists in assessing the key assumptions adopted in the calculation of value in use and/or the fair value less costs of disposal of certain assets, by assessing whether the key assumptions were within the range adopted by other companies in the same industry or comparing with market and other external available information;

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Key audit matters (continued)

Assessing potential impairment of non-current assets held by certain subsidiary of the Group	
See notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on page 84 in Note 2 (i) (ii).	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified assessing potential impairment of non-current assets as a key audit matter because the impairment assessments include a number of assumptions and estimates which require the exercise of significant management judgement and are inherently uncertain and could be subject to potential management bias.	• involving our internal valuation specialists to assist us in evaluating the discount rate applied in the discounted cash flow forecasts by assessing whether the discount rate applied in the discounted cash flow forecasts were within the range of those adopted by other companies in the same industry and with similar risk profile; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Responsibilities of the directors for the consolidated financial statements (Continued)

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited (Continued)
(Incorporated in the Cayman Islands with limited liability)

Auditor's responsibility for the audit of the consolidated financial statements (Continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Ying Man, Simon.

KMPG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2018

Consolidated statement of profit or loss

For the year ended 31 December 2017
(Expressed in Renminbi ("RMB"))

	Note	2017 RMB'000	2016 RMB'000
Revenue	4	**238,330**	486,497
Cost of sales	6(c)	**(93,927)**	(341,128)
Gross profit	4(b)	**144,403**	145,369
Other income	5	**7,679**	6,566
Selling expenses		**(2,675)**	(3,117)
Administrative expenses		**(74,628)**	(50,369)
Profit from operations		**74,779**	98,449
Finance costs	6(a)	**(7,111)**	(8,364)
Profit before taxation	6	**67,668**	90,085
Income tax	7	**(11,232)**	(19,892)
Profit attributable to equity shareholders of the Company for the year		**56,436**	70,193
Earnings per share			
— Basic and diluted (RMB)	10	**0.056**	0.070

The notes on pages 79 to 128 form part of these financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2017
(Expressed in RMB)

	2017 RMB'000	2016 RMB'000
Profit for the year	**56,436**	70,193
Other comprehensive income for the year (before and after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**(514)**	136
Total comprehensive income attributable to equity shareholders of the Company for the year	**55,922**	70,329

The notes on pages 79 to 128 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	11	**231,353**	313,320
Investment properties	12	**54,018**	6,918
Lease prepayments	13	**53,753**	54,890
Other receivables	17	**–**	4,713
Deferred tax assets	26(b)	**6,522**	8,372
		345,646	388,213
Current assets			
Inventories	15	**132,890**	150,698
Trade receivables	16	**16,264**	18,936
Prepayments, deposits and other receivables	17	**38,475**	27,905
Prepaid income tax	26(a)	**6,072**	–
Cash and cash equivalents	18	**131,852**	115,817
Time deposits	19	**96,460**	50,000
		422,013	363,356
Current liabilities			
Trade and bills payables	20	**761**	18,721
Receipts in advance	21	**104**	75
Accrued expenses and other payables	22	**18,605**	26,470
Bank and other loans	23(a)	**74,828**	8,629
Obligations under finance lease	24	**5,487**	6,270
Income tax payable	26(a)	**–**	8,794
		99,785	68,959
Net current assets		**322,228**	294,397
Total assets less current liabilities		**667,874**	682,610

The notes on pages 79 to 128 form part of these financial statements.

Consolidated statement of financial position (Continued)

At 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank and other loans	23(b)	**–**	44,828
Obligations under finance lease	24	**–**	5,487
Deferred income	25	**30,535**	33,063
Deferred tax liability	26(b)	**1,300**	1,500
		31,835	84,878
NET ASSETS		**636,039**	597,732
CAPITAL AND RESERVES	27		
Share capital		**7,921**	7,921
Reserves		**628,118**	589,811
TOTAL EQUITY		**636,039**	597,732

Approved and authorised for issue by the board of directors on 28 March 2018.

Yim Tsun
Director

Li Li
Director

The notes on pages 79 to 128 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Other reserve RMB'000 (Note 27(d)(ii))	Statutory reserves RMB'000 (Note 27(d)(iii))	Exchange reserve RMB'000 (Note 27(d)(iv))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2016	7,921	259,976	30	28,302	4,819	226,355	527,403
Changes in equity for 2016:							
Profit for the year	–	–	–	–	–	70,193	70,193
Other comprehensive income	–	–	–	–	136	–	136
Total comprehensive income	–	–	–	–	136	70,193	70,329
Appropriation to reserves	–	–	–	8,130	–	(8,130)	–
Balance at 31 December 2016	7,921	259,976	30	36,432	4,955	288,418	597,732
Balance at 1 January 2017	7,921	259,976	30	36,432	4,955	288,418	597,732
Changes in equity for 2017:							
Profit for the year	–	–	–	–	–	56,436	56,436
Other comprehensive income	–	–	–	–	(514)	–	(514)
Total comprehensive income	–	–	–	–	(514)	56,436	55,922
Dividend approved in respect of the previous year	–	(17,615)	–	–	–	–	(17,615)
Appropriation to reserves	–	–	–	6,162	–	(6,162)	–
Balance at 31 December 2017	**7,921**	**242,361**	**30**	**42,594**	**4,441**	**338,692**	**636,039**

The notes on pages 79 to 128 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Profit before taxation		**67,668**	90,085
Adjustments for:			
Depreciation and amortisation	6(c)	**30,663**	28,159
Net loss on disposal of property, plant and equipment	5	**5,558**	334
Impairment loss on property, plant and equipment	11(d)	**2,265**	–
Interest income	5	**(1,126)**	(1,765)
Finance costs	6(a)	**7,111**	8,335
Government grants related to assets		**(2,528)**	(1,714)
Changes in working capital:			
Decrease/(increase) in inventories		**17,808**	(65,866)
Decrease/(increase) in trade receivables		**2,672**	(2,319)
Increase in prepayments, deposits and other receivables		**(6,189)**	(9,015)
(Decrease)/increase in trade and bills payables		**(17,960)**	18,721
Increase/(decrease) in receipts in advance		**29**	(123)
Increase in accrued expenses and other payables		**708**	2,269
Cash generated from operations		**106,679**	67,101
Income tax paid	26(a)	**(24,448)**	(17,085)
Net cash generated from operating activities		**82,231**	50,016
Investing activities			
Payments for purchase of property, plant and equipment		**(13,781)**	(41,094)
Proceeds from disposals of property, plant and equipment		**2,726**	674
Payments for land use rights		**–**	(26,938)
Increase in time deposits	19	**(96,460)**	(50,000)
Decrease in time deposits		**50,000**	42,300
Government grants received		**–**	32,605
Interest received		**1,126**	1,765
Net cash used in investing activities		**(56,389)**	(40,688)

The notes on pages 79 to 128 form part of these financial statements.

Consolidated cash flow statement (Continued)

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Financing activities			
Proceeds from new bank loans	18(b)	**60,000**	40,000
Repayment of bank and other loans	18(b)	**(38,629)**	(37,170)
Capital element of finance lease rentals paid	18(b)	**(6,270)**	(5,517)
Interest element of finance lease rentals paid	18(b)	**(1,716)**	(2,745)
Dividends paid to equity shareholders of the Company	27(b)(ii)	**(17,615)**	–
Other finance costs paid	18(b)	**(5,395)**	(5,580)
Net cash used in financing activities		**(9,625)**	(11,012)
Net increase/(decrease) in cash and cash equivalents		**16,217**	(1,684)
Cash and cash equivalents at 1 January	18	**115,817**	117,312
Effect of foreign exchange rate changes		**(182)**	189
Cash and cash equivalents at 31 December	18	**131,852**	115,817

The notes on pages 79 to 128 form part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2014. The listing of the Company's shares was transferred from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The consolidated financial statements of the Company as at and for the year ended 31 December 2017 comprise the Group. The principal activities of the Group are the processing, production and sale of wooden products and rendering of wood processing procedure service.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) 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 impact on the accounting policies of the Group. However, additional disclosure has been included in Note 18(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised consolidated profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)), unless the investment is classified as held-for-sale.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20 years
Machinery and equipment	10 years
Motor vehicles and other equipment	5 - 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(h)) to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)). The depreciation policy is the same as that of property, plant and equipment (see Note 2(e)). Rental income from investment properties is accounted for as described in Note 2(r)(iii).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible asset

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

Intangible asset that is acquired by the Group is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)).

Amortisation of intangible asset with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful life. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

	Estimated useful life
Patent use right	5 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Payments made on the acquisition of land held under an operating lease is stated at cost less accumulated amortisation and impairment losses (see Note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists for trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) Impairment of receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recoveries are considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible asset; and
- investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(i)(i) and 2(i)(ii)).

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 2(i)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

The Group entered into an arrangement with a financial leasing institution in which the Group sold certain equipment to this institution and then leased back with scheduled lease payments. The Group has an option to buy back these equipment at a token price at the end of the lease term, i.e. the bargain purchase option. Considering that the bargain purchase option is set at a token price, it is almost certain that the Group would exercise such option. Such arrangement does not, in substance, involve a lease under IAS 17. Instead, the sales and leaseback transactions are closely interrelated and are accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The substance of this arrangement is an interest-bearing borrowing, secured by the underlying assets and repayable in instalments over the lease term. The information of the underlying assets and the secured loans are disclosed in Notes 11(b) and 23(b)(ii).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or continuing management involvement with the goods.

(ii) Rendering of service

Revenue from the rendering of wood processing procedure service is generally recognised when the processed wood products are despatched to and accepted by the customers.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition (Continued)

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates.

The presentation currency of the Group is RMB. The results of foreign operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or completed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting (Continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 29 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of trade and other receivables

The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the assessment of recoverability of individual receivable balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the customers and other debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future years.

3. ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the processing, production and sale of wooden products and rendering of wood processing procedure service.

Revenue represents the sales value of goods and services supplied to customers, net of value added tax.

The Group's customer base is diversified and includes only one independent customer group with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2017 (2016: no customer). In 2017 revenues to this customer group, including sales to entities which are known to the group to be under common control with this customer, amounted to approximately RMB112,862,000 (2016: RMBNil). Details of concentrations of credit risk arising from this customer are set out in note 29(a).

Further details regarding the Group's principal activities are disclosed below.

(b) Segment reporting

The Group manages its businesses by products and services. 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 three reportable segments: Sales of Processed Wood Panels, Sales of Processed Finger Joint Wood Panels and Rendering of Wood Processing Procedure service. The Group ceased the production and sales of Processed Finger Joint Wood Panels during the year of 2017. No operating segments have been aggregated to form the following reportable segments.

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

- Sales of Processed Wood Panels: this segment produces and sells wood panels which have gone through the Group's self-developed wood processing procedure, and also the shaving and sanding in accordance with the specifications of the customers.

- Sales of Processed Finger Joint Wood Panels: this segment sells wood panels which are produced from the pressing and laminating cut-offs arising from the trimming process of the Processed Wood Panels.

- Rendering of Wood Processing Procedure service: this segment processes the raw wood panels of the customers in accordance with the customers' requirement.

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2017 and 2016. The Group's other operating expenses, such as selling and administrative expenses, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (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 years ended 31 December 2017 and 2016 is set out below.

	2017		
	Sales of processed wood panels RMB'000	**Rendering of wood processing procedure service RMB'000**	**Total RMB'000**
Revenue from external customers and reportable segment revenue	**62,042**	**176,288**	**238,330**
Reportable segment gross profit	**14,653**	**129,750**	**144,403**

	2016			
	Sales of wood panels			
	Processed wood panels RMB'000	Processed finger joint wood panels RMB'000	Rendering of wood processing procedure service RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	414,438	9,675	62,384	486,497
Reportable segment gross profit	103,698	1,734	39,937	145,369

(ii) Geographic information

The Group's revenue is substantially generated from the sale of wooden products and rendering wood processing procedure service to the customers in the People's Republic of China (the "PRC"). The Group's operating assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5. OTHER INCOME

	2017 RMB'000	2016 RMB'000
Interest income	**1,126**	1,765
Government grants	**3,905**	2,773
Rental income from operating leases	**7,958**	1,341
Net gain from sale of scrap materials	**248**	1,021
Net loss on disposal of property, plant and equipment	**(5,558)**	(334)
	7,679	6,566

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2017 RMB'000	2016 RMB'000
Interest on bank and other loans	**5,239**	5,525
Finance charges on obligations under finance lease	**1,716**	2,745
Bank charges	**156**	94
Total finance costs	**7,111**	8,364

No borrowing costs have been capitalised for the year ended 31 December 2017 (2016: RMBNil).

6. PROFIT BEFORE TAXATION (Continued)

(b) Staff costs#:

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	**19,280**	25,220
Contributions to defined contribution retirement schemes	**2,018**	2,833
	21,298	28,053

The employees of the subsidiaries of the Group established in the PRC participate in defined contribution retirement benefit schemes managed by the local government authority, whereby these subsidiaries are required to contribute to the schemes at rates ranging from 19% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

The Group also operates Mandatory Provident Fund Schemes (the "MPF schemes") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed by the Group's subsidiary incorporated in Hong Kong under a trustee. Under the MPF schemes, the employer and the employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HK$") 30,000. Contributions to the MPF schemes vest immediately.

The Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items:

	2017 RMB'000	2016 RMB'000
Depreciation and amortisation#	**30,663**	28,159
Operating lease charges in respect of plant and buildings	**935**	936
Auditors' remuneration:		
— annual audit services	**3,135**	2,823
— other services	**–**	300
Research and development costs (including costs relating to staff costs disclosed in *Note 6(b)*)	**22,919**	13,289
Cost of inventories# *(Note 15(b))*	**93,927**	341,128

\# Cost of inventories includes RMB15,138,000 for the year ended 31 December 2017 (2016: RMB30,012,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2017 RMB'000	2016 RMB'000
Current taxation *(Note 26(a))*:		
— The PRC Corporate Income Tax	**9,582**	25,900
Deferred taxation *(Note 26(b))*:		
— Origination and reversal of temporary differences	**350**	(7,508)
— Retained profits to be distributed	**1,300**	1,500
	1,650	(6,008)
	11,232	19,892

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**67,668**	90,085
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**17,602**	23,339
Tax effect of non-deductible expenses	**1,725**	1,798
Tax effect of non-taxable income	**–**	(1)
Tax concessions *(Note (iv))*	**(9,395)**	(6,744)
Tax effect of retained profits to be distributed *(Note (v))*	**1,300**	1,500
Income tax	**11,232**	19,892

7. INCOME TAX (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

Notes:

(i) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%). No provision for Hong Kong Profits Tax has been made, as neither the Company nor the subsidiary of the Group incorporated in Hong Kong have assessable profits which are subject to Hong Kong Profits Tax for the year ended 31 December 2017 (2016: RMBNil).

(ii) The Company and a subsidiary of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(iii) The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2017 (2016: 25%).

(iv) The subsidiaries of the Group established in the PRC obtained an approval from the tax bureau to be taxed as a high and new technology enterprise. Pursuant to the approval, these subsidiaries are entitled to a preferential PRC Corporate Income Tax rate of 15% for the three years ended 31 December 2017 or ending 31 December 2019. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by these subsidiaries.

(v) One of the subsidiaries of the Group established in the PRC declared on 21 March 2018 that RMB26,000,000 retained profits will be distributed to China Wood Optimization (HK) Limited. The directors are of the opinion that this dividend of RMB26,000,000 is subject to PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations. As a result a deferred tax liability of RMB1,300,000 has been provided as at 31 December 2017 accordingly.

Excluding the above RMB26,000,000, the rest taxable temporary differences relating to the undistributed retained profits of the subsidiaries of the Group established in the PRC amounted to RMB291,859,000 at 31 December 2017 (31 December 2016: RMB258,226,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

8. DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out below:

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms Yim Tsun	**743**	**–**	**–**	**–**	**743**
Mr Li Li	**743**	**–**	**–**	**–**	**743**
Independent non-executive directors					
Mr Zhang Dali	**133**	**–**	**–**	**–**	**133**
Mr Pu Junwen	**133**	**–**	**–**	**–**	**133**
Mr Lau Ying Kit	**133**	**–**	**–**	**–**	**133**
	1,885	**–**	**–**	**–**	**1,885**

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms Yim Tsun	720	–	–	–	720
Mr Li Li	720	–	–	–	720
Independent non-executive directors					
Mr Zhang Dali	128	–	–	–	128
Mr Pu Junwen	128	–	–	–	128
Mr Lau Ying Kit	128	–	–	–	128
	1,824	–	–	–	1,824

No emoluments were paid by the Group to the directors during the year in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) are directors whom the emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2016: three) who are not directors are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,090**	953
Discretionary bonuses	**160**	160
Retirement scheme contributions	**80**	62
	1,330	1,175

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$Nil – HK$1,000,000	**3**	3

No emoluments were paid or payable by the Group to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10. BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to equity shareholders of the Company of RMB56,436,000 (2016: RMB70,193,000) and the weighted average of 1,000,000,000 ordinary shares (2016: 1,000,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2017 and 2016.

11. PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2016	179,545	152,699	10,079	44,016	386,339
Additions	1,312	2,095	2,416	22,112	27,935
Transfer in/(out)	48,547	16,823	–	(65,370)	–
Disposals	–	(1,433)	(539)	–	(1,972)
At 31 December 2016	229,404	170,184	11,956	758	412,302
Accumulated depreciation:					
At 1 January 2016	(20,680)	(48,256)	(4,257)	–	(73,193)
Charge for the year	(9,714)	(15,685)	(1,354)	–	(26,753)
Written back on disposals	–	827	137	–	964
At 31 December 2016	(30,394)	(63,114)	(5,474)	–	(98,982)
Net book value:					
At 31 December 2016	199,010	107,070	6,482	758	313,320
Cost:					
At 1 January 2017	229,404	170,184	11,956	758	412,302
Additions	111	2,714	1,253	1,130	5,208
Transfer in/(out)	–	1,111	411	(1,522)	–
Reclassification to investment properties *(Note 12)*	(56,012)	–	–	–	(56,012)
Disposals	–	(19,396)	(2,102)	–	(21,498)
At 31 December 2017	173,503	154,613	11,518	366	340,000
Accumulated depreciation and impairment losses:					
At 1 January 2017	(30,394)	(63,114)	(5,474)	–	(98,982)
Charge for the year	(8,853)	(17,162)	(1,273)	–	(27,288)
Impairment loss *(Note (d))*	–	(2,201)	(64)	–	(2,265)
Reclassification to investment properties *(Note 12)*	6,674	–	–	–	6,674
Written back on disposals	–	12,635	579	–	13,214
At 31 December 2017	(32,573)	(69,842)	(6,232)	–	(108,647)
Net book value:					
At 31 December 2017	140,930	84,771	5,286	366	231,353

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

At 31 December 2017 the Group has obtained the ownership certificates for all the properties.

(b) Assets sold and leased back

In September 2015, Hebei AMS Wood Processing Co., Ltd. ("Hebei AMS"), one of the subsidiaries of the Group, entered into an arrangement with a financial leasing institution in which Hebei AMS sold certain equipment to this institution at a net consideration of RMB22,163,000 and then leased back with scheduled lease payments together with an option to buy back these equipment at a price of RMB1 when the lease term is expired in September 2018. As disclosed in Note 2(m), such arrangement is accounted for as an interest-bearing borrowing, of which the balance at 31 December 2017 is RMB4,828,000 (31 December 2016: RMB13,457,000), secured by the relevant machinery and equipment, of which the net book value at 31 December 2017 is RMB23,457,000 (31 December 2016: RMB28,631,000). Detailed information of this borrowing is disclosed in Note 23(b)(ii).

(c) Assets held under finance lease

In November 2015, Jiangsu AMS Wood Industry Company Limited ("Jiangsu AMS"), one of the subsidiaries of the Group, entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, Jiangsu AMS entered into a supplementary agreement with this institution to reduce the amount of assets held under finance lease and the obligations under finance lease. At 31 December 2017, the net book value of machinery and equipment held under finance lease is RMB15,412,000 (31 December 2016: RMB17,209,000).

(d) Impairment loss

During the first half year of 2017, Hebei AMS was required by the local government authority to dismantle its 10 tons of coal-fired boiler by end of October 2017 in compliance with the requirement of air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017. In view of this, the Group temporarily ceased the operation of its coal-fired boiler. The Group assessed the recoverable amount of the related property, plant and equipment of Hebei AMS as at 31 December 2017 based on the valuation report issued by Avista Valuation Advisory Limited ("Avista Valuation"), an independent qualified valuer engaged by the Group and an impairment loss of RMB2,265,000 (2016: RMBNil) was recognised in administrative expenses. The estimates of recoverable amount were based on the fair values less costs of disposal, using market comparison approach on the related properties and plants by reference to recent sales price of similar assets and cost approach on the related equipment by reference to the cost to acquire a substitute asset of comparable utility adjusted for obsolescence. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

12. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	**9,783**	9,783
Reclassification from property, plant and equipment *(Note 11)*	**56,012**	–
At 31 December	**65,795**	9,783
Accumulated amortisation:		
At 1 January	**(2,865)**	(2,400)
Reclassification from property, plant and equipment *(Note 11)*	**(6,674)**	–
Charge for the year	**(2,238)**	(465)
At 31 December	**(11,777)**	(2,865)
Net book value:		
At 31 December	**54,018**	6,918

Notes:

(i) The investment properties owned by the Group are situated in the PRC. According to the property valuation report issued by Avista Valuation, an independent qualified valuer, the fair value of the Group's investment properties at 31 December 2017 is RMB74,190,000 (31 December 2016: RMB13,230,000).

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of 1 or 2 years, with an option to renew the lease after that date at which time all terms are renegotiated. The leases do not contain contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**12,253**	1,064
After 1 year but within 5 years	**3,849**	266
	16,102	1,330

13. LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	**57,402**	55,859
Additions	**–**	1,543
At 31 December	**57,402**	57,402
Accumulated amortisation:		
At 1 January	**(2,512)**	(1,589)
Charge for the year	**(1,137)**	(923)
At 31 December	**(3,649)**	(2,512)
Net book value:		
At 31 December	**53,753**	54,890

Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC, with a lease period of 50 years. At 31 December 2017 the Group has obtained the ownership certificates for all the land use rights.

14. INTERESTS IN SUBSIDIARIES

The following list contains the particulars of the Group's subsidiaries.

			Proportion of ownership interest			
Name of subsidiary	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hebei AMS Wood Processing Co., Ltd. 河北愛美森木材加工有限公司*	The PRC 3 November 2009	RMB115,333,000	100%	–	100%	Production and sale of wood panels/ rendering of wood processing procedure service
Celestial New Limited 天新有限公司**	The British Virgin Islands 10 April 2012	United States Dollar ("USD")1	100%	100%	–	Investment holding
China Wood Optimization (HK) Limited 中國優化材(香港)有限公司**	Hong Kong 13 April 2012	1 share	100%	–	100%	Investment holding
Jiangsu AMS Wood Industry Company Limited 江蘇愛美森木業有限公司*	The PRC 18 March 2015	Registered capital of RMB220,500,000 and paid-up capital of RMB156,000,000	100%	–	100%	Production and sale of wood panels/rendering of wood processing procedure service

* These companies are wholly foreign owned enterprises established in the PRC. The English translation of their names are for reference only. The official names of these companies are in Chinese.

** These companies are limited liability companies incorporated outside of the PRC.

15. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 RMB'000	2016 RMB'000
Raw materials	**398**	45,862
Work in progress	**131**	18,688
Finished goods	**132,361**	86,148
	132,890	150,698

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**93,927**	341,128

16. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables from third parties	**16,264**	18,936

All of the trade receivables are expected to be recovered within one year.

Cash before delivery is generally required for all customers, where a credit period of 30 to 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2017 RMB'000	2016 RMB'000
Aged within 1 month, neither past due nor impaired	**16,264**	11,896
Aged from 1 to 2 months, neither past due nor impaired	**–**	7,040
	16,264	18,936

16. TRADE RECEIVABLES (Continued)

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Further details on the Group's credit policy are set out in Note 29(a).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments for purchase of inventories	**30,460**	20,258
Prepaid value added tax	**–**	3,759
Deposits for other loan and obligations under finance lease	**4,713**	–
Others	**3,302**	3,888
Short-term prepayment, deposits and other receivables	**38,475**	27,905
Add: long-term other receivables		
Deposits for other loan and obligations under finance lease	**–**	4,713
	38,475	32,618

All of the short-term prepayments, deposits and other receivables at 31 December 2017 and 2016 are expected to be recovered or recognised as expenses within one year.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**131,852**	115,817

The Group's operation in the PRC conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities:

	Bank loans and other loans RMB'000	Finance leases RMB'000	Total RMB'000
At 1 January 2017	53,457	11,757	65,214
Changes from financing cash flows:			
Proceeds from new bank loans	60,000	–	60,000
Repayment of bank and other loans	(38,629)	–	(38,629)
Capital element of finance lease rentals paid	–	(6,270)	(6,270)
Interest element of finance lease rentals paid	–	(1,716)	(1,716)
Other finance costs paid	(5,395)	–	(5,395)
Total changes from financing cash flows	15,976	(7,986)	7,990
Other changes:			
Finance charges on obligations under finance leases *(Note 6(a))*	–	1,716	1,716
Interest expenses and bank charges *(Note 6(a))*	5,395	–	5,395
Total other changes	5,395	1,716	7,111
At 31 December 2017	74,828	5,487	80,315

19. TIME DEPOSITS

	2017 RMB'000	2016 RMB'000
Time deposits with original maturity over 3 months	**96,460**	50,000

Notes:

(i) At 31 December 2017, time deposits of RMB50,760,000 (31 December 2016: RMB16,000,000) have been pledged for bank loans of a third party supplier of the Group amounting to RMB48,000,000 (31 December 2016: RMB15,000,000). These bank loans were repaid by the borrower in March 2018 and as a result the pledges have been released at the same time.

The above pledges for bank loans constitute issuance of guarantees to third parties. Further details are set out in Note 31.

(ii) At 31 December 2017, time deposits of RMBNil (31 December 2016: RMB18,000,000) has been pledged for issuance of bills of the Group.

20. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables to third parties	**761**	721
Bills payable	**–**	18,000
	761	18,721

As of the end of the reporting period, the ageing analysis of trade and bills payables, based on the maturity date, is as follows:

	2017 RMB'000	2016 RMB'000
Due within 1 month or on demand	**761**	721
Due within 1 to 3 months	**–**	18,000
	761	18,721

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

21. RECEIPTS IN ADVANCE

	2017 RMB'000	2016 RMB'000
Receipts in advance from customers	**104**	75

Receipts in advance represented advances received from customers and where the goods have not been delivered to them as of the end of the reporting period.

All of the receipts in advance are expected to be recognised as revenue within one year.

22. ACCRUED EXPENSES AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Payables for construction and purchase of property, plant and equipment	**4,979**	13,552
Payables for staff related costs	**3,784**	6,197
Payables for interest expenses	**63**	63
Others	**3,809**	2,829
Financial liabilities measured at amortised cost	**12,635**	22,641
Payables for miscellaneous taxes	**3,442**	1,301
Deferred income	**2,528**	2,528
	18,605	26,470

All of the accrued expenses and other payables are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

23. BANK AND OTHER LOANS

(a) The short-term bank and other loans are analysed as follows:

	2017 RMB'000	2016 RMB'000
Short-term bank loan:		
– secured *(Note (i))*	**30,000**	–
Add: Current portion of long-term other loan *(Note 23(b))*	**44,828**	8,629
	74,828	8,629

23. BANK AND OTHER LOANS (Continued)

(a) The short-term bank and other loans are analysed as follows (Continued):

Note (i): At 31 December 2017, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the short-term bank loan is RMB60,867,000 (31 December 2016: RMBNil).

(b) The long-term bank and other loans are analysed as follows:

	2017 **RMB'000**	2016 RMB'000
Long-term bank loan:		
– secured *(Note (i))*	**–**	40,000
Long-term other loan from a financial leasing institution		
– secured *(Note (ii))*	**4,828**	13,457
	4,828	53,457
Less: Current portion of long-term other loan *(Note 23(a))*	**(4,828)**	(8,629)
	–	44,828

The Group's long-term bank and other loans are repayable as follows:

	2017 **RMB'000**	2016 RMB'000
Within 1 year or on demand	**44,828**	8,629
After 1 year but within 2 years	**–**	44,828
	44,828	53,457

Notes:

(i) At 31 December 2017, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the long-term bank loan is RMB57,972,000 (31 December 2016: RMB61,353,000).

(ii) At 31 December 2017, the aggregate carrying value of the secured property, plant and equipment of the Group for the long-term other loan is RMB23,457,000 (31 December 2016: RMB28,631,000), as disclosed in Note 11(b). The effective interest rate of this long-term other loan is 17.09%.

(c) At 31 December 2017, the Group's banking loan facility amounted to RMB50,000,000 (31 December 2016: RMB80,000,000) was utilised to the extent of RMB30,000,000 (31 December 2016: RMB40,000,000).

(d) None of the Group's bank and other loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions.

Further details of the Group's management of liquidity risk are set out in Note 29(b).

24. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2017, the Group had obligations under finance lease repayable as follows:

	2017		2016	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**5,487**	**5,990**	6,270	7,987
After 1 year but within 2 years	**–**	**–**	5,487	5,990
After 2 years but within 5 years	**–**	**–**	–	–
	–	**–**	5,487	5,990
	5,487	**5,990**	11,757	13,977
Less: Total future finance charges		**(503)**		(2,220)
Present value of lease obligations		**5,487**		11,757

25. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	**35,591**	4,700
Additions	**–**	32,605
Credited to profit or loss	**(2,528)**	(1,714)
	33,063	35,591
Less: Current portion of deferred income	**(2,528)**	(2,528)
At 31 December	**30,535**	33,063

Deferred income mainly represents government grants related to construction of property, plant and equipment and would be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2017 RMB'000	2016 RMB'000
Income tax payable/(prepaid income tax) at 1 January	**8,794**	(21)
Provision for income tax on the estimated taxable profits for the year *(Note 7(a))*	**9,582**	25,900
Income tax paid during the year	**(24,448)**	(17,085)
(Prepaid income tax)/income tax payable at 31 December	**(6,072)**	8,794

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Assets accrued expenses and government grants and related amortisation RMB'000	Assets - unused tax losses RMB'000	Assets - impairment loss RMB'000	Liabilities - fair value adjustments on property, plant and equipment and lease prepayments and related depreciation and amortisation in connection with the acquisition of a subsidiary RMB'000	Liabilities - retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2016	919	–	–	(55)	–	864
Credited/(charged) to the consolidated statement of profit or loss *(Note 7(a))*	7,496	–	–	12	(1,500)	6,008
At 31 December 2016	8,415	–	–	(43)	(1,500)	6,872
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(3,459)	1,257	340	12	200	(1,650)
At 31 December 2017	4,956	1,257	340	(31)	(1,300)	5,222

(c) Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2017 RMB'000	2016 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**6,522**	8,372
Deferred tax liabilities recognised in the consolidated statement of financial position	**(1,300)**	(1,500)
	5,222	6,872

26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognised

As disclosed in Note 7(b)(v), at 31 December 2017 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB291,859,000 (31 December 2016: RMB258,226,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

27. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Exchange reserve RMB'000 (Note 27(d)(iv))	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	7,921	259,976	14,047	(17,092)	264,852
Changes in equity for 2016:					
Loss for the year	–	–	–	(5,868)	(5,868)
Other comprehensive income	–	–	17,598	–	17,598
Total comprehensive income	–	–	17,598	(5,868)	11,730
Balance at 31 December 2016	7,921	259,976	31,645	(22,960)	276,582
Balance at 1 January 2017	7,921	259,976	31,645	(22,960)	276,582
Changes in equity for 2017:					
Profit for the year	–	–	–	13,997	13,997
Dividend approved in respect of the previous year	–	(17,615)	–	–	(17,615)
Other comprehensive income	–	–	(17,922)	–	(17,922)
Total comprehensive income	–	(17,615)	(17,922)	13,997	(21,540)
Balance at 31 December 2017	7,921	242,361	13,723	(8,963)	255,042

27. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2017 RMB'000	2016 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.02 per ordinary share (2016: HK$0.02 per ordinary share)	**16,178**	17,890

The directors resolved on 28 March 2018 that HK$20,000,000, equivalent to RMB16,178,000 is to be distributed to the equity shareholders of the Company, subject to the approval of the equity shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017 RMB'000	2016 RMB'000
Final dividend proposed in respect of the previous financial year, approved and paid during the year, of HK$0.02 per ordinary share (2016: HK$Nil per ordinary share)	**17,615**	–

(c) Share capital

	2017		2016	
	No. of shares	RMB'000	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

27. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(ii) Other reserve

Other reserve represented the capital contribution paid by the ultimate holding company of the Company on the acquisition of a subsidiary in excess of its paid-in capital prior to the group reorganisation that took place in 2012.

(iii) Statutory reserves

In accordance with the articles of association of the subsidiaries of the Group established in the PRC, these subsidiaries are required to set up certain statutory reserves, which are non-distributable. The appropriation to these reserves is at discretion of the directors of these subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

(e) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium) available for distribution to equity shareholders of the Company is RMB242,361,000 (31 December 2016: RMB259,976,000). The directors resolved on 28 March 2018 that HK$20,000,000, equivalent to RMB16,718,000 is to be distributed to the equity shareholders of the Company, subject to the approval of the equity shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

27. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital management (Continued)

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 December 2017, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 December 2017, the liability-to-asset ratio of the Group is 17.1% (31 December 2016: 20.5%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. MATERIAL RELATED PARTY TRANSACTIONS

The material related party transactions entered into by the Group during the year are set out below.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**3,487**	3,278
Retirement schemes contributions	**143**	103
	3,630	3,381

Total remuneration is included in "staff costs" (see Note 6(b)).

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers and debtors. These evaluations focus on the past history of making payments of the customers/debtors when due and current ability to pay, and take into account information specific to the customers/debtors as well as pertaining to the economic environment in which the customers/debtors operate. For trade receivables, cash before delivery is generally required for all customers, where a credit period of 30 to 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers and debtors.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer/debtor rather than the industry in which the customers/debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers/debtors. At 31 December 2017, 36.0% (31 December 2016: 32.6%) of the total trade receivables were due from the Group's largest debtor, and 40.2% of the total trade receivables were due from the Group's largest five debtors (31 December 2016: 94.6%).

Except for the guarantees given by the Group as set out in Notes 19(i) and 31, the Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 16 and 17.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans and other debt financing to cover expected cash demands, where approvals by the directors of the Company are required when the borrowings exceed certain pre-determined levels of authorisation. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2017 Contractual undiscounted cash out flow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Trade and bills payables	**761**	**–**	**761**	**761**
Accrued expenses and other payables measured at amortised cost	**12,635**	**–**	**12,635**	**12,635**
Bank and other loans	**77,209**	**–**	**77,209**	**74,828**
Finance lease liabilities	**5,990**	**–**	**5,990**	**5,487**
	96,595	**–**	**96,595**	**93,711**

	2016 Contractual undiscounted cash out flow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and bills payables	18,721	–	18,721	18,721
Accrued expenses and other payables measured at amortised cost	23,942	–	23,942	23,942
Bank and other loans	12,878	45,662	58,540	53,457
Finance lease liabilities	7,987	5,990	13,977	11,757
	63,528	51,652	115,180	107,877

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2017		2016	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loan	**5.55%**	**70,000**	5.70%	40,000
Other loan	**17.09%**	**4,828**	17.09%	13,457
Finance lease liabilities	**19.30%**	**5,487**	19.30%	11,757
		80,315		65,214

No sensitivity analysis was performed for the years ended 31 December 2017 and 2016, as the Group's fixed rate borrowings do not expose the Group to cash flow interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through cash balances denominated in a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily RMB.

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.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**15**	13

29. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
RMB	**5%**	**1**	5%	1
	(5%)	**(1)**	(5%)	(1)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in their respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets.

(e) Fair values

The Group does not have any financial instruments measured at fair value at 31 December 2017 and 2016.

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

30. COMMITMENTS

(a) Operating lease commitments

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**704**	233
After 1 year but within 5 years	**260**	–
	964	233

31. CONTINGENT LIABILITIES

At 31 December 2017, the Group has the following guarantees:

	2017 RMB'000	2016 RMB'000
Guarantee for bank loan of a third party supplier	**50,760**	16,000
Guarantee for bank loan of a third party customer	**–**	16,000
	50,760	32,000

Further details of the guarantees are set out in Note 19(i).

32. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2017** **RMB'000**	2016 RMB'000
Non-current assets			
Interests in subsidiaries		**238,380**	259,100
Current assets			
Prepayments and other receivables		**16,862**	17,891
Cash and cash equivalents		**525**	314
		17,387	18,205
Current liabilities			
Accrued expenses and other payables		**725**	723
Net current assets		**16,662**	17,482
NET ASSETS		**255,042**	276,582
CAPITAL AND RESERVES	27(a)		
Share capital		**7,921**	7,921
Reserves		**247,121**	268,661
TOTAL EQUITY		**255,042**	276,582

Approved and authorised for issue by the board of directors on 28 March 2018.

Yim Tsun	**Li Li**
Director	*Director*

(Expressed in RMB unless otherwise indicated)

33. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2017 to be Brilliant Plan Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

34. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2014-2016 cycle	1 January 2018
Amendments to IAS 40, *Transfers of investment property*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015-2017 cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

34. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairments and gains/losses on disposal will be recognised in profit or loss.

For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of IFRS 9.

34. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 9, Financial instruments (Continued)

(a) Classification and measurement (Continued)

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment on the historical impairment experience, the Group expects the accumulated impairment loss provision will not materially change.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(r). Currently, revenue arising from the rendering of wood processing procedure service is recognised when the processed wood products are despatched to and accepted by the customers, whereas revenue from the sale of wood products is generally recognised when the risks and rewards of ownership of the goods have been transferred to the customers.

34. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(a) Timing of revenue recognition (Continued)

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group expects that the adoption of IFRS 15 will not materially impact how it recognises revenue.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. The expected changes in accounting policies as described above will not have a material impact on the Group's financial results from 2018 onwards.

34. POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 16, Leases

As disclosed in Note 2(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 30(a), at 31 December 2017 the Group's minimum lease payments under non-cancellable operating leases only amount RMB964,000 for properties, all of which is payable within 12 months or after 1 year but within 2 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements