



ANNUAL REPORT
2017

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

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



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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

Mr. Homer Sun
Mr. Teoh Chun Ming

Independent non-executive Directors

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

Alternate Director

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

Audit Committee

Mr. Chan Siu Wing, Raymond (*Chairman*)
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

Remuneration Committee

Professor Li Kwok Cheung, Arthur (*Chairman*)
Mr. Teoh Chun Ming
Mr. Ho King Fung, Eric

Nomination Committee

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

Corporate Governance Committee

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

Executive Committee

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

Company Secretary

Mr. Lai Kwok Keung, Alex

Authorised Representatives

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

Auditors

KPMG

Principal Bankers

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

Registered Office

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

CORPORATE INFORMATION (CONTINUED)

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Principal Place of Business in Hong Kong

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

Head Office in the PRC

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

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Website

www.nature-home.com.hk

Stock Code

2083

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 December 2017 (the “Year”), benefiting from the steady growth of the overall economy and the real estate market in the People’s Republic of China (“PRC”), Nature Home Holding Company Limited (the “Company”) and its subsidiaries (collectively the “Group”, “we” or “us”) achieved satisfactory growth in overall sales. The Group’s overall turnover increased by 10.1% from approximately RMB2,315,651,000 in 2016 to approximately RMB2,550,646,000 for the Year. This growth was mainly attributable to the net effect of (i) the increase in revenue from flooring products in the PRC^(note); and (ii) the decrease in revenue from trading of timber resulted from a one-off clearance sale of inventories in Peru in 2016. In respect of our two core businesses, namely, manufacturing and sale of home decoration products as well as provision of trademark and distribution network, the Group recorded an increase in sales amounts of 21.8% and 4.4% to approximately RMB2,027,915,000 and RMB230,443,000, respectively, while the business of trading of timber and home decoration products declined by 31.8% as compared to last year. In addition, total sales volumes of flooring products consecutively reached a record high of approximately 35,000,000 square meters, representing an increase of 15.2% as compared to last year. Furthermore, revenue from flooring products in the PRC (arising from manufacturing and sales of self-manufactured flooring products, fees income from authorised flooring products manufacturers and trading of flooring products) increased by 20.8% from approximately RMB1,582,000,000 in last year to approximately RMB1,911,000,000 for the Year.

Note: It included revenue arising from manufacturing and sales of self-manufactured flooring products, fees income from authorised flooring products manufacturers and income from trading of flooring products in the PRC.

During the Year, the Group continued to restructure and optimize its sales channels and business. On 1 December 2017, China Wood Flooring Holding Company Limited (“China Wood”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Ample Connect Limited (“Ample Connect”), pursuant to which China Wood has sold the entire issued share capital of the Nature Flooring (Europe) Company Limited (“Nature Flooring Europe”) to Ample Connect, at a total cash consideration of RMB294,000 (“Disposal of Nature Flooring Europe”). Nature Flooring Europe is an investment holding company and its subsidiaries are principally engaged in the business of trading of timbers in the PRC and France. As the performance of such business had been unsatisfactory, the Group ceased to be engaged in such business upon completion of the Disposal of Nature Flooring Europe. For details of the Disposal of Nature Flooring Europe, please refer to the announcement of the Company dated 1 December 2017.

Moreover, in order to meet the needs of wider range of customers, the Group also continued to launch new home decoration products actively during the Year, such as kitchen and bathroom floorings, underfloor heating floorings, and water-based paint wooden doors.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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1. *Manufacturing and sale of home decoration products*

The home decoration products of the Group mainly comprise of floorings, wooden doors, wardrobes, cabinets and wall paper. For the year ended 31 December 2017, the sales for the manufacturing and sales of home decoration products of the Group was RMB2,027,915,000 (for the year ended 31 December 2016: RMB1,665,168,000), representing an increase of approximately 21.8%. Such increase was principally attributable to the overall growth of sales of the Group's floorings, wooden doors, wardrobes, cabinets and wall paper businesses in the PRC.

The business of manufacturing and sale of flooring products

The sales for the manufacturing and sale of flooring products business increased by 27.1% to approximately RMB1,590,000,000 as compared to last year. The Group's flooring products mainly include laminated floorings and engineered floorings. In respect of its flooring sales and distribution network, the Group has established a sound and extensive sales network in the PRC. The Group has also become a major distributor of a number of renowned foreign brands of flooring products in the PRC. During the Year, we continued to actively launch new flooring products, such as kitchen and bathroom floorings. As at 31 December 2017, the total number of flooring stores reached 3,604 (31 December 2016: 3,492), of which, there were 3,401 "Nature" stores (31 December 2016: 3,329), and 203 foreign imported brand stores (31 December 2016: 163). The number of stores grew steadily in general.

The Group currently owns five production plants for flooring products, which are mainly engaged in the manufacturing of laminated floorings and engineered floorings. In addition, the Group is now constructing two new plants to produce kitchen and bathroom floorings and engineered floorings.

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

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

With respect to the wooden doors business, the Group recorded improved performance and growth during the Year. The sales amount increased by 7.0% to approximately RMB170,000,000 as compared to last year. As at 31 December 2017, the number of the Group's stores for wooden doors was 547 (31 December 2016: 576) in total. The Group currently owns two wooden door production plants. In addition, we are transforming an existing flooring production plant into a wooden door production plant, which is expected to commence production in the second half of 2018.

With respect to the business of wardrobes and cabinets, the sales amount increased by 40.5% to approximately RMB171,000,000 as compared to last year, which was mainly attributable to sales to commercial customers recorded a satisfactory increase. As at 31 December 2017, the Group owned a total of 148 (31 December 2016: 178) wardrobe and cabinet stores. The Group currently owns two production plants for wardrobe and cabinet products.

The business of manufacturing and sale of wall papers

In 2016, the Group acquired the entire equity interest in Guangxi Nature Bigao Gaoxin Decoration Material Company Limited ("Guangxi Bigao"). Guangxi Bigao sells its wall paper products under the "Geko" and "壁高" brands, and has advanced production plants for manufacturing of wall paper products in Guangxi. As at 31 December 2017, the number of wall paper stores of the Group reached 591 (31 December 2016: 518).

2. *Provision of trademark and distribution network*

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

As the sales of solid wood, engineered and three-layered flooring products authorised to manufacture increased during the Year, the turnover generated from trademark and distribution network usage fees increased by 4.4% to approximately RMB230,443,000 from approximately RMB220,662,000 in 2016.

3. *Trading of timber and home decoration products*

The Group's revenue from trading business of timber and home decoration products recorded approximately RMB292,288,000 for the Year (31 December 2016: approximately RMB428,365,000), representing a decrease of 31.8% as compared to last year. The decrease was mainly due to a one-off clearance sale of inventories in Peru in 2016.

The Group's trading products mainly include flooring products exported to the United States ("US") as well as flooring and wardrobe products imported to China. The Group's subsidiaries located in the US purchase flooring products from our self-owned production plants, authorised manufacturers and other flooring manufacturers. They then resell these products to customers in the overseas markets.

As the Group's business of timber trading continued to record unsatisfactory performance, as stated above, we restructured our business by disposing the entire issued share capital of Nature Flooring Europe on 1 December 2017. The Group is no longer engaged in such business upon completion of the Disposal of Nature Flooring Europe.

Prospect

The Group's flagship brand "Nature" has been recognized by consumers as an image of quality and safe products and representing healthy life and environmental protection. Since the starting of our household product strategy of providing integrated green home decoration products, we have formed a strategic layout that various green home decoration product brands, including Nature floorings, Nature wooden doors, Nature Kolani wardrobes and cabinets and Geko wallpaper, run together with "Nature" as a leading brand.

The Group kept its commitment to health and environment under the leadership of our Chairman Mr. Se Hok Pan and the remaining of the senior management, and participated in various environmental protection activities, including tree planting activities in Sichuan Province. Besides, the Group is dedicated to providing high-quality and safe products for consumers, while integrating the idea of providing environment-friendly and safe products into our business model. For example, during the Year, we launched the water-based paint door products and zero-aldehyde-emission underfloor heating flooring products, all of which contain no harmful substance. The Group will stick to its philosophy of "Take Environment Responsibility and Promote a Healthy Life Style" on a sustainable path.

The Group's production and sales of home decoration products continued to record satisfactory growth in general. Looking forward, we will move on to develop more diversified products that integrate environmental protection and smart home concept based on the household product strategy and provide consumers with environmental-friendly and smart products. Moreover, the Group will continue to strengthen its internal management and integrate its resources with an aim to improve product quality and operational efficiency comprehensively. We anticipate that the proportion of affordable housing and hardbound housing in the real estate market of the PRC will further increase in the future. In addition, benefiting from rising consumer spending in the PRC market, the demand for renovation will increase substantially. Therefore, we consider that the domestic home decoration product market in the PRC will continue to grow rapidly. We will seize this opportunity to increase our market share continuously to maintain our leading position in the flooring market, and explore other home decoration product markets to create more values for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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Financial Review

Revenue

For the year ended 31 December 2017, we generate revenue from three business segments: (1) manufacturing and sale of home decoration products; (2) provision of trademark and distribution network; and (3) trading of timber and home decoration products. The business of forestry management segment had ceased in June 2016.

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

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

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

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

Revenue	For the year ended 31 December				Revenue Growth rate %
	2017		2016		
	RMB'000	% of total revenue	RMB'000	% of total revenue	
Manufacturing and sale of home decoration products	2,027,915	79.5	1,665,168	71.9	21.8
Provision of trademark and distribution network	230,443	9.0	220,662	9.5	4.4
Trading of timber and home decoration products	292,288	11.5	428,365	18.5	(31.8)
Forestry management	—	—	1,456	0.1	(100.0)
Total	2,550,646	100.0	2,315,651	100.0	10.1

For the year ended 31 December 2017, the Group generated revenues of approximately RMB2,550,646,000, representing an increase of 10.1%, as compared with approximately RMB2,315,651,000 for the year ended 31 December 2016.

Revenue from manufacturing and sale of home decoration products increased by 21.8% to approximately RMB2,027,915,000 for the Year compared to approximately RMB1,665,168,000 for the year ended 31 December 2016. It was mainly attributable to the overall growth of the Group's floorings, wooden doors, wardrobes, cabinets and wall paper businesses in the PRC.

Revenue from provision of trademark and distribution network increased by 4.4% to approximately RMB230,443,000 for the Year compared to approximately RMB220,662,000 for the year ended 31 December 2016. It was mainly attributable to the increase in demand for solid wood and engineered flooring products manufactured by authorised manufacturers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Revenue from trading of timber and home decoration products decreased by 31.8% to approximately RMB292,288,000 for the Year compared to approximately RMB428,365,000 for the year ended 31 December 2016. It was mainly due to a one-off clearance sales of inventories in Peru in 2016.

Cost of Sales

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

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

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

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

Cost of Sales	For the year ended 31 December		Growth rate %
	2017 RMB'000	2016 RMB'000	
Manufacturing and sale of home decoration products	1,506,517	1,233,579	22.1
Provision of trademark and distribution network	5,491	6,226	(11.8)
Trading of timber and home decoration products	261,955	429,112	(39.0)
Forestry management	—	1,799	(100.0)
Total	1,773,963	1,670,716	6.2

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross Profit/(Loss)

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

Gross Profit/(Loss)	For the year ended 31 December		Growth rate %
	2017 RMB'000	2016 RMB'000	
Manufacturing and sale of home decoration products	521,398	431,589	20.8
Provision of trademark and distribution network	224,952	214,436	4.9
Trading of timber and home decoration products	30,333	(747)	(4,160.6)
Forestry management	—	(343)	(100.0)
Total	776,683	644,935	20.4
EBITDA	227,787	138,852	64.1

For the year ended 31 December 2017, the overall gross profit increased by 20.4% to approximately RMB776,683,000 compared to approximately RMB644,935,000 for the year ended 31 December 2016 and the gross profit margin increased to 30.5% from 27.9% for the year ended 31 December 2016.

The segment of manufacturing and sale of home decoration products contributed a gross profit of approximately RMB521,398,000 for the Year, representing an increase of 20.8%, compared to approximately RMB431,589,000 for the year ended 31 December 2016. The gross profit margin was 25.7% compared to 25.9% for the year ended 31 December 2016.

The segment of provision of trademark and distribution network contributed a gross profit of approximately RMB224,952,000 for the Year, representing an increase of 4.9%, compared to approximately RMB214,436,000 for the year ended 31 December 2016. The gross profit margin was 97.6% compared to 97.2% for the year ended 31 December 2016.

The segment of trading of timber and home decoration products contributed a gross profit of approximately RMB30,333,000 for the Year compared to a gross loss of approximately RMB747,000 for the year ended 31 December 2016. The gross profit margin was 10.4% for the Year compared to a gross loss margin of 0.2% for the year ended 31 December 2016. The gross loss in 2016 was mainly due to the increase in write down of inventories resulted from the restructuring of distribution networks of our flooring products in the United States and the clearance sales in Peru.

For the year ended 31 December 2017, the EBITDA increased by 64.1% to approximately RMB227,787,000 compared to approximately RMB138,852,000 for the year ended 31 December 2016 and the EBITDA margin increased to 8.9% from 6.0% for the year ended 31 December 2016.

EBITDA is defined as profit before net finance costs, income tax, depreciation and amortisation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other Income

Other income consists primarily of rental income from operating leases and government grants which are subject to the discretion of the relevant authorities. Other income increased by 29.9% to approximately RMB29,785,000 for the Year, compared to approximately RMB22,934,000 for the year ended 31 December 2016. It was primarily attributable to the increase in government grants and rental income.

Distribution Costs

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

Distribution costs was approximately RMB349,743,000 for the Year, representing an increase of approximately 11.4%, compared to approximately RMB314,026,000 for the year ended 31 December 2016. It was primarily due to the increase in advertising and promotion expenses resulted from increase in sales, staff costs, decoration allowance to distributors and travelling expenses.

The percentage of distribution costs to revenue was 13.7% compared to 13.6% for the year ended 31 December 2016.

Administrative Expenses

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

Administrative expenses was approximately RMB262,225,000 for the Year, representing an increase of approximately 7.9%, compared to approximately RMB243,020,000 for the year ended 31 December 2016. It was primarily due to the net effect of increase in staff costs, depreciation and rental expenses; and decrease in allowance for doubtful debts and legal fees.

The percentage of administrative expenses to revenue was 10.3% compared to 10.5% for the year ended 31 December 2016.

Other Operating Expenses

Other operating expenses increased by 15.3% to approximately RMB51,172,000 for the Year, compared to approximately RMB44,387,000 for the year ended 31 December 2016. Other operating expenses mainly represented impairment losses for investments.

Net Finance Costs

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

Finance income decreased by 2.5% to approximately RMB22,815,000 for the Year compared to approximately RMB23,412,000 for the year ended 31 December 2016. It was primarily due to the net effect of decrease in interest income and increase in net foreign exchange gain.

Finance costs decreased by 3.9% to approximately RMB29,476,000 for the Year as compared to approximately RMB30,658,000 for the year ended 31 December 2016. It was mainly due to the increase in interest expense capitalised into construction in progress.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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Income Tax

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

Income tax was approximately RMB83,201,000 for the Year compared to approximately RMB57,368,000 for the year ended 31 December 2016, which was the total effect of the current income tax of approximately RMB64,439,000 and the net deferred tax expenses of approximately RMB18,762,000. The increase in income tax was mainly due to increase in profit of our PRC operations in 2017. The increase in deferred tax expenses was mainly due to provision of withholding tax on retained earnings.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, the profit attributable to equity shareholders of the Company was approximately RMB68,182,000 for the Year, compared to the profit of approximately RMB38,280,000 for the year ended 31 December 2016.

Liquidity

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations and (ii) proceeds from loans and borrowings. During the Year, the Group generated net cash inflow of RMB122,134,000 from operating activities (year ended 31 December 2016: RMB302,544,000) and obtained a net increase in bank loans of RMB126,747,000 (year ended 31 December 2016: RMB40,105,000).

Net Current Assets and Working Capital Sufficiency

As at 31 December 2017, net current assets was approximately RMB1,134,778,000, representing an increase of 9.8%, compared to approximately RMB1,033,349,000 as at 31 December 2016. The current ratios as at 31 December 2017 and 31 December 2016 were 1.7 and 1.7, respectively.

Trade and Bills Receivables

As at 31 December 2017, trade and bills receivables increased by 8.2% to approximately RMB1,180,388,000 compared to approximately RMB1,091,312,000 as at 31 December 2016. It was mainly due to increase in the portion of sales to property developers for which credit terms are longer.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Resources

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

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Bills payables	200,900	213,150
Bank loans: current	665,361	585,060
non-current	103,900	88,510
Sub-total	970,161	886,720
Less: Cash and cash equivalents	749,862	618,703
Pledged and restricted deposits	241,921	256,311
Adjusted net (assets)/debts	(21,622)	11,706
Total equity	2,180,679	2,083,039
Adjusted gearing ratios	(0.01)	0.01

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Bank Loans

(a) At 31 December 2017, the bank loans were repayable as follows:

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year or on demand	665,361	585,060
After 1 year but within 2 years	—	19,500
After 2 years but within 5 years	103,900	—
After 5 years	—	69,010
Sub-total	103,900	88,510
Total	769,261	673,570

At 31 December 2017, the bank loans were secured as follows:

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Secured	712,595	545,931
Unsecured	56,666	127,639
	769,261	673,570

At 31 December 2017, the Group has secured loans and borrowings amounting to approximately RMB712,595,000 (31 December 2016: RMB545,931,000), of which:

- approximately RMB123,400,000 (31 December 2016: RMB69,500,000) of these secured loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantees;
- approximately RMB589,195,000 (31 December 2016: RMB452,421,000) of the Group (the "collateral loans") were solely secured by assets of the Group;
- no loans or borrowings (31 December 2016: RMB24,010,000) were solely guaranteed by the third parties on the joint and several guarantees.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The pledged assets of the Group are as following:

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000
Restricted deposits	116,000	165,000
Other property, plant and equipment	149,008	148,200
Investment properties	—	5,590
Lease prepayments	75,821	75,225
Trade and bills receivables	481,309	259,500
	822,138	653,515

Parts of the Group's banking facilities, amounted to RMB610,502,000 (31 December 2016: RMB709,400,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2017 and 31 December 2016, none of the covenants relating to drawn down facilities had been breached.

The unutilised banking facilities as at 31 December 2017 amounted to RMB281,717,000 (31 December 2016: RMB161,098,000).

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

	2017		2016	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	4.23	305,452	3.84	320,550
Fixed rate instruments				
Bank loans	5.48	463,809	4.96	353,020
Total borrowings		769,261		673,570
Fixed rate borrowings as a percentage of total borrowings		60%		52%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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Capital Expenditures

Capital expenditures amounted to RMB128,447,000 for the Year (year ended 31 December 2016: RMB94,183,000). It primarily related to purchases of property, plant and equipment.

Commitments and Contingent Liabilities

(a) Capital Commitments

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

	2017 RMB'000	2016 RMB'000
Contracted for	41,732	23,661

(b) Operating Lease Commitments

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

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

	2017 RMB'000	2016 RMB'000
Within 1 year	20,232	21,674
After 1 year but within 3 years	13,976	25,733
After 3 years but within 5 years	1,993	6,882
After 5 years	3,640	4,236
	39,841	58,525

Foreign Currency Risk

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

Employees

As at 31 December 2017, the Group had 3,124 employees (at 31 December 2016: 2,817). Relevant staff cost was approximately RMB297,838,000 (including share award scheme expenses of approximately RMB9,841,000) for the Year compared to approximately RMB264,678,000 (including share option schemes and share award scheme expenses of approximately RMB8,747,000) for the year ended 31 December 2016. The Group will regularly review remuneration and benefits of its employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes, share option schemes and share award scheme.

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

On 1 December 2017, China Wood, a wholly-owned subsidiary of the Company, entered into the a sale and purchase agreement with Ample Connect pursuant to which China Wood has sold and Ample Connect has purchased the entire issued share capital of Nature Flooring Europe, at a total cash consideration of RMB294,000 (the “Disposal of Nature Flooring Europe”). The Disposal of Nature Flooring Europe constituted a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. For further details of the Disposal of Nature Flooring Europe, please refer to the announcement of the Company dated 1 December 2017.

Save for disclosed above, the Group did not have any material acquisition or disposal of subsidiaries, associated companies or joint ventures for the year ended 31 December 2017.

Subsequent Events

No significant events took place subsequent to 31 December 2017.

Future Plans for Material Investments

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2017.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Se Hok Pan (余學彬), age 58, is the Chairman and the President of the Company and was appointed a Director on 27 July 2007 and the President of the Company on 1 February 2018. Mr. Se is a co-founder of the Group. Mr. Se is responsible for formulating overall strategies, planning and business development of the Company, managing and supervising the financial management functions and human resources of the Company and is instrumental to our growth and business expansion since our establishment in 2004. Mr. Se began his career in the flooring products industry in 1995 and has over 20 years of experience in the flooring products industry. Mr. Se holds important positions in influential industry associations. He is currently the vice president of China Forestry Industry Association (中國林業產業協會), and one of the drafters of the China National Standards for Solid Wood Flooring (中國實木地板國家標準) which came into effect in 2009. Mr. Se is also a member of the Gansu Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議甘肅省委員會) and the vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Mr. Se served as a general manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Mr. Se served as a president at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. Se has received numerous high profile awards such as the "Robert A. Mundell World Executive Awards (2004)", "China Forestry Industry Annual Person (2009)" (中國林業產業年度人物) as recognized by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會) and "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎). Mr. Se is the spouse of Ms. Un Son I, the younger brother of Mr. She Jian Bin and the brother-in-law of Mr. Liang Zhihua. Mr. Se is a director of Freewings Development Co., Ltd., the controlling shareholder of the Company.

Ms. Un Son I (袁順意), age 52, is a Vice President of the Company and the General Manager of the Supply Chain Management Department and the Internal Audit Department of the Group. Ms. Un was appointed a Director on 27 July 2007. Ms. Un is a co-founder of the Group. Ms. Un is responsible for networking and development of relationship with suppliers, procurement control, logistics management and asset management and control to ensure the supply chain operates efficiently. She is also responsible for the overall management of internal audit of the Group. Ms. Un has over 20 years of experience in the flooring products industry. Ms. Un is a member of China-ASEAN Organization (中國東盟協會) and vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Ms. Un served as a deputy general manager and a procurement manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Ms. Un was a director of president office, a director of human resources and a director of the procurement center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Un was awarded as one of the "100 Outstanding Female Entrepreneurs of China" (中國百名傑出女企業家). Ms. Un is the spouse of Mr. Se Hok Pan and the sister-in-law of Mr. She Jian Bin and Mr. Liang Zhihua. Ms. Un is a director of Freewings Development Co., Ltd., a controlling shareholder of the Company.

Mr. She Jian Bin (余建彬), age 60, was appointed a Director on 8 May 2008. Mr. She is responsible for the participation of the Group's marketing activities. Mr. She has approximately 30 years of experience in the timber industry and the flooring products industry. Mr. She was a purchasing manager of wood at P.T. Sumber Laris Jaya Manufacturer Timber Industry from 1988 to 1994 and worked at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) for its production, sales and distribution management from 1995 to 2001. During the period between July 2001 and September 2004, Mr. She served as a director of the sales center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. She has received "15 Prosperous Years of the China Flooring Industry — Promotion of Industry Development Award" (中國地板行業輝煌十五年傑出行業建設推動獎) in 2010. Mr. She joined the Group in 2004 and has since held various managerial positions in sales and distribution. Mr. She is the elder brother of Mr. Se Hok Pan and the brother-in-law of Ms. Un Son I and Mr. Liang Zhihua.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Liang Zhihua (梁志華), age 54, Mr. Liang was appointed a Director and the President of the Company on 1 January 2014 and ceased to be the President of the Company on 1 February 2018. Mr. Liang is also a director of certain operating subsidiaries of the Group. Mr. Liang joined the Group in 2006 and has since held various managerial positions in the general affairs, human resources and production departments as well as the President's Office of the Group. He has over ten years of experience in the flooring products industry. Mr. Liang is the brother-in-law of Mr. She Jian Bin, Mr. Se Hok Pan and Ms. Un Son I.

Non-executive Directors

Mr. Homer Sun (孫弘), age 47, is a non-executive Director of the Company. Mr. Sun joined the Board on 8 May 2008. Mr. Sun is currently the Chief Investment Officer of Morgan Stanley Private Equity Asia and leads the China investments for Morgan Stanley Private Equity Asia. Mr. Sun is also a Managing Director of Morgan Stanley Asia Limited and a member of the China Management Committee which is comprised of Morgan Stanley Asia Limited's most senior business leaders within China. He is currently the non-executive director of Sihuan Pharmaceutical Holdings Group Limited (stock code: 460), Tianhe Chemicals Group Limited (stock code: 1619), China XD Plastics Company Limited (a company listed on the NASDAQ stock exchange, ticker: CXDC), Noah Education Holdings Ltd. (a company which was previously listed on the New York Stock Exchange) and Renfang Medical Holdings Ltd.. Mr. Sun was a non-executive director of China Shanshui Cement Group Limited (stock code: 691), a company listed on the Stock Exchange, from 14 June 2008 to 15 October 2013. Mr. Sun was a non-executive director of Yongye International, Inc. (a company which was previously listed on the NASDAQ stock exchange). Mr. Sun joined Morgan Stanley Asia Limited in 2000 prior to which he was a corporate attorney specializing in mergers and acquisitions with Simpson Thacher & Bartlett in New York and Hong Kong from 1996 to 2000. Mr. Sun received a B.S.E. in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D, cum laude, from the University of Michigan Law School in 1996.

Mr. Teoh Chun Ming (張振明), age 48, is a non-executive Director of the Company. Mr. Teoh joined the Group in 2008 and was appointed as the Chief Financial Officer and the Company Secretary on 1 September 2008 and 26 March 2009, respectively. Mr. Teoh was also the Authorised Representative of the Company for the purpose of the Listing Rules and the Companies Ordinance. Mr. Teoh held the positions of Chief Financial Officer and Company Secretary until his appointment as a non-executive Director of the Company on 1 July 2012. Mr. Teoh is also the investor relations officer of the Company. Mr. Teoh was an independent non-executive director of EPI (Holdings) Limited (stock code: 689), a company listed on the Stock Exchange, from January 2014 to October 2016 and is currently the chief financial officer and company secretary of Joyer Auto HK Company Limited and an independent non-executive director of WE Solutions Limited (formerly known as O Luxe Holdings Limited, Stock Code: 860), a company listed on the Stock Exchange. Mr. Teoh has over 20 years of accounting and finance experience. Prior to joining the Group, Mr. Teoh held senior positions in accounting and finance in various companies listed on the Stock Exchange. Mr. Teoh obtained a master's degree in professional accounting from the Hong Kong Polytechnic University in 2005. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (李國章), age 73, was appointed as an independent non-executive Director on 4 May 2011. Professor Li is currently the deputy chairman and non-executive director of The Bank of East Asia, Limited (Stock Code: 23) and an independent non-executive director of Shangri-La Asia Limited (Stock Code: 69), both being companies listed on the Stock Exchange, and a non-executive director of BioDiem Ltd. in Australia, a company which was delisted from the Australian Securities Exchange in November 2013. Professor Li was appointed a Member of the Executive Council of Hong Kong Special Administrative Region ("HKSAR"), the Chairman of the Council for Sustainable Development of HKSAR and the Chairman of the Council of the University of Hong Kong on 1 July 2012, 1 March 2015 and 1 January 2016 respectively. Professor Li was an independent non-executive director of The Wharf (Holdings) Limited (Stock Code: 4), a company listed on the Stock Exchange, from 1 July 2012 to 16 August 2013, a non-executive director of AFFIN Holdings Berhad (symbol: 5185), a company listed on Bursa Malaysia, from 21 May 2008 to 31 December 2014, and a director of CaixaBank, S.A. (symbol: CABK), a company listed on the Spanish Stock Exchange, from November 2014 to December 2015. Professor Li is also a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Professor Li served as Professor of Surgery (Founding Chair) in the Department of Surgery of The Chinese University of Hong Kong from 1982 to 2005. In addition, Professor Li was the Dean of the Faculty of Medicine of The Chinese University of Hong Kong from 1992 to 1996 and the Vice-Chancellor of the university from 1996 to 2002. Professor Li was a non-executive director of Glaxo Wellcome plc. from 1997 to 2000. In 2002, Professor Li became Secretary for Education and Manpower as well as a member of the Executive Council of the Hong Kong Special Administrative Region Government and his term ended in June 2007. Prior to 2002, Professor Li was a non-executive director of The Bank of East Asia, Limited, China Mobile Limited, Henderson Cyber Limited and The Wharf (Holdings) Limited. During the same period of time, Professor Li was also the non-executive chairman of Corus and Regal Hotels plc. Professor Li resigned from all these positions in 2002 when he assumed his role as Secretary for Education and Manpower in Hong Kong. Professor Li obtained his medical degree from University of Cambridge in 1969.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chan Siu Wing, Raymond (陳兆榮), age 53, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Chan is currently an independent non-executive director of Quali-Smart Holdings Limited (Stock Code: 1348) and Hong Kong Finance Group Limited (Stock Code: 1273), all of them being companies listed on the Main Board of the Stock Exchange. Mr. Chan also holds the position of independent non-executive director of Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (Stock Code: 8066), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan was an independent non-executive director of China Kingstone Mining Holdings Limited (Stock Code: 1380) from July 2015 to December 2015 and an independent non-executive director of National Agricultural Holdings Limited (Stock Code: 1236) from September 2015 to March 2016, all of them being companies listed on the Main Board of the Stock Exchange. Mr. Chan has over 28 years of experience in the field of accounting, taxation, finance and trust. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a founding member of the Macau Society of Certified Practising Accountants.

Mr. Ho King Fung, Eric (何敬豐), age 41, was appointed as an independent non-executive Director on 4 May 2011. Mr. Ho is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited. Mr. Ho was appointed as an executive director and co-chairman of WE Solutions Limited (formerly known as O Luxe Holdings Limited, Stock Code: 860), a company listed on the Stock Exchange, on 1 November 2016 and was re-designated as the Chairman of WE Solutions Limited on 24 November 2017. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and as an associate between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and head of Hong Kong and Macau Origination. Mr. Ho was a non-executive director of United Energy Group Limited (Stock Code: 467), a company listed on the Stock Exchange, between 2011 and 2012, the non-executive chairman of EPI (Holdings) Limited (Stock Code: 689) from 2013 to 2016 and a non-executive director of AGTech Holdings Limited (Stock Code: 8279) from 2013 to 2016. United Energy Group Limited, EPI (Holdings) Limited and AGTech Holdings Limited are companies listed on the Stock Exchange. He is a committee member of the Chinese People's Political Consultative Conference of Beijing (中國人民政治協商會議北京市委員會) and the president of Money Exchangers' Association of Macao. Mr. Ho was also awarded China's Top 10 Economic Talents (十大中華經濟英才) in 2009. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees.

Alternate Director

Mr. Law Wing Cheung, Ryan (羅永祥), age 43, was appointed as an alternate director to Mr. Homer Sun, a non-executive director of the Company since 26 March 2013. Mr. Law is a Managing Director of Morgan Stanley Asia Limited. He is currently the non-executive director of Noah Education Holdings Ltd. (a company which was previously listed on the New York Stock Exchange), Renfang Medical Holdings Ltd. and China Showyu Healthy Group Ltd.. Mr. Law focuses on private equity transactions for Morgan Stanley Private Equity Asia in China. Mr. Law joined Morgan Stanley in 1998 and worked in Morgan Stanley's Investment Banking Division and Morgan Stanley Principal Investments for 10 years before departing in 2008. Prior to rejoining Morgan Stanley in 2012, Mr. Law was with Mount Kellett Capital and founded GCL Capital. Mr. Law has been focusing on private equity transactions in China since 2006. Mr. Law received a Bachelor of Arts degree in Economics from the University of Chicago.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior Management

Mr. Shen Xiaodi (沈小笛), age 53, is the Chief Operating Officer of the Company. Mr. Shen joined the Group in September 2017. Mr. Shen is responsible for the day-to-day management of the Group's business operation as well as arranging and formulating the Group's business plans. Prior to that, Mr. Shen assumed a number of senior managerial positions, including a vice president of a high-tech enterprise in the PRC; an executive director of BaWang International (Group) Holding Limited (a company listed on the Stock Exchange, stock code: 1338) and the vice general manager of an asset management company. Mr. Shen possesses over 10 years of experience in manufacturing, supply chain and marketing management as well as in strategy planning and implementation. Mr. Shen graduated from Xi'an Jiaotong University in 1986. Mr. Shen obtained a doctoral degree from the Automatization Institute of the Chinese Academy of Sciences in 1993 and obtained his qualification as an associate researcher in the Applied Mathematics Institute of the Chinese Academy of Sciences in 1995.

Mr. Lai Kwok Keung, Alex (黎國強), aged 48, is the Chief Financial Officer and Company Secretary of the Company. Mr. Lai joined the Group in 2016. Mr. Lai is responsible for developing the financial strategies of the Group. Mr. Lai is also participate in the formulation of major investment plans of the Group, provides financial advice for the Group and oversees the Group's company secretarial matters. Mr. Lai has over 20 years of accounting and finance experience. Mr. Lai held senior positions in accounting, finance, company secretary and audit in various companies. Prior to joining the Group, he was the Chief Financial Officer and Company Secretary of a property development company. Mr. Lai was a senior internal audit manager at companies listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange and a senior manager at an international accounting firm. Mr. Lai graduated with a bachelor's degree in Business Administration from The University of Hong Kong in 1993. Mr. Lai is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures. The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") so as to maintain a high standard of corporate governance of the Company.

During the year ended 31 December 2017, the Company has complied with the applicable code provisions of the Code.

On 1 February 2018, the Company announced that, with effect from the same date, Mr. Liang Zhihua ceased to be the President of the Company and Mr. Se Hok Pan was appointed the President of the Company. Mr. Se is the Chairman and an executive Director of the Company. Following the appointment of Mr. Se as the President of the Company, the roles of Chairman and President of the Company are performed by Mr. Se and Mr. Se is responsible for formulating overall strategic planning and business development of the Group and effective functioning of the Board as well as day-to-day management of the Group's operation and overseeing the Group's business. As such, since the appointment of Mr. Se as the President of the Company on 1 February 2018, the Company has deviated from the code provision A.2.1 under the Code which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Mr. Se is a co-founder of the Group and was appointed as a Director of the Company on 27 July 2007. Mr. Se is instrumental to the Group's growth and business expansion since its establishment in 2004. The Company believes that the combination of the roles of Chairman and President can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business development opportunities efficiently. The Company believes that through the supervision of the Board and its independent non-executive Directors, sufficient safeguards are in place to ensure balance of powers within the Board so that the interests of the shareholders of the Company are adequately and fairly represented.

Board of Directors

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

The Board of the Company currently consists of nine directors, namely Mr. Se Hok Pan (Chairman and the President), Ms. Un Son I, Mr. She Jian Bin and Mr. Liang Zhihua as executive Directors, Mr. Homer Sun (with Mr. Law Wing Cheung, Ryan as his alternate) and Mr. Teoh Chun Ming as non-executive Directors and Professor Li Kwok Cheung, Arthur, Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric as independent non-executive Directors. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors which include relationships between Board members are set out on pages 17 to 20 of this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Each of Mr. Se Hok Pan, Ms. Un Son I and Mr. She Jian Bin, all being executive Directors, entered into a service contract with the Company for a fixed period of three years from 1 April 2018. Mr. Liang Zhihua, an executive Director, entered into a service contract with the Company for a fixed period of three years from 1 February 2018. Each of the independent non-executive Directors, namely Professor Li Kwok Cheung, Arthur, Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric was appointed under a formal letter of appointment with the Company for a fixed term of three years commencing on 4 May 2017. Mr. Homer Sun (a non-executive Director) was appointed under a formal letter of appointment with the Company with no fixed term. Mr. Teoh Chun Ming (a non-executive Director) was appointed under a formal letter of appointment with the Company for a term of three years commencing on 1 July 2015. Notwithstanding the above, all Directors, including the non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring Director is eligible for re-election.

The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for 2017 are set out in note 7 to the financial statements.

During the year ended 31 December 2017, the Company has four independent non-executive Directors, which number exceeds the minimum requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board.

The Company has received a written confirmation of independence from each of the independent non-executive Directors, and considers them to be independent.

Directors have access to the services of the Company Secretary to ensure that the Board procedures are followed. The Company Secretary of the Company is Mr. Lai Kwok Keung, Alex. Mr. Lai is also the Chief Financial Officer of the Group.

Directors' Attendance Records

Board meetings are held at least four times a year at approximately quarterly intervals and on other occasions when necessary. Details of Directors' attendance at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee held during the year ended 31 December 2017 are set out in the following table:

Directors	Number of meetings attended/held during the year ended 31 December 2017				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Executive Directors					
Mr. Se Hok Pan (<i>Chairman</i>) (Note 1)	4/4	—	—	1/1	1/1
Mr. Liang Zhihua (<i>President</i>) (Note 1)	3/4	—	—	—	—
Ms. Un Son I	4/4	—	—	—	—
Mr. She Jian Bin	4/4	—	—	—	—
Non-executive Directors					
Mr. Homer Sun	4/4 (Note 2)	—	—	—	—
Mr. Teoh Chun Ming	4/4	—	—	—	1/1
Independent non-executive Directors					
Professor Li Kwok Cheung, Arthur	2/4	—	1/1	—	—
Mr. Zhang Sen Lin (Note 3)	1/4	1/2	1/1	—	—
Mr. Chan Siu Wing, Raymond	4/4	1/2	—	1/1	—
Mr. Ho King Fung, Eric	4/4	1/2	1/1	1/1	1/1

Notes:

- Mr. Liang Zhihua was the President during the year ended 31 December 2017 and ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.
- Amongst these four Board meetings, Mr. Homer Sun attended two Board meetings by himself and the remaining two Board meetings were attended by his alternate, Mr. Law Wing Cheung, Ryan.
- As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

In 2017, the Company convened and held one shareholders' general meetings, being the 2017 annual general meeting (the "2017 AGM") held on 31 May 2017. Mr. Se Hok Pan, Ms. Un Son I and Mr. Chan Siu Wing, Raymond attended the 2017 AGM.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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Directors' Induction and Professional Development

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly updated and apprised of the amendments to or updates on the relevant laws, rules, regulations and guidelines, particularly the effects of such new or amended laws, rules, regulations and guidelines on directors specifically, and the Company and the Group generally. On an ongoing basis, Directors are encouraged to keep up-to-date on all matters relevant to the Group and to attend briefings, seminars and relevant training courses as appropriate.

The Directors are requested to provide the Company with their respective training record pursuant to the new requirement of the Code on continuous professional development. During the year ended 31 December 2017, all Directors have participated in appropriate continuous professional development activities by way of attending training sessions, conferences and seminars or reading materials relevant to the Company's business, directors' duties and responsibilities, corporate governance and recent amendments to the Listing Rules.

Board Committees

The Company currently has five principal Board committees, which are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the Executive Committee. The Audit Committee, the Remuneration Committee and the Executive Committee were established on 3 May 2011, while the Nomination Committee and the Corporate Governance Committee were established on 28 November 2011.

Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

Membership

The Audit Committee currently has three members, namely Mr. Chan Siu Wing, Raymond (Chairman) and Mr. Ho King Fung, Eric, both are independent non-executive Directors and Mr. Teoh Chun Ming, a non-executive Director. The Audit Committee comprises a majority of independent non-executive Directors.

Mr. Chan Siu Wing, Raymond, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the Australian Society of Certified Practising Accountants, and a founding member of the Macau Society of Certified Practising Accountants, has the appropriate professional qualifications to lead and chair the Audit Committee.

Responsibilities and work done

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the Company's financial controls, internal control and risk management systems, to review and monitor the effectiveness of the audit process and to perform other duties and responsibilities as assigned by the Board.

The works performed by the Audit Committee during year ended 31 December 2017 are as follows:

- reviewed the annual report and the annual results announcement of the Company for the year ended 31 December 2016;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2017;
- reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function;
- reviewed the risk management and internal control systems of the Group; and
- reviewed the effectiveness of the Company's internal audit function.

Remuneration Committee

Membership

The Remuneration Committee currently has three members, namely Professor Li Kwok Cheung, Arthur (Chairman) and Mr. Ho King Fung, Eric, both are independent non-executive Directors and Mr. Teoh Chun Ming, a non-executive Director. The Remuneration Committee comprises a majority of independent non-executive Directors.

Responsibilities and work done

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the Code in its terms of reference. It will make recommendations to the Board on the remuneration packages for individual executive Directors and senior management, with the Board retaining the final authority to approve such remuneration packages. The other principal responsibilities of the Remuneration Committee include (i) making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) making recommendations to the Board on the remuneration of the non-executive Directors; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The work performed by the Remuneration Committee during the year ended 31 December 2017 is as follows:

- reviewed and approved the remuneration package of the Directors and senior management of the Company.

For the year ended 31 December 2017, the remuneration payable to two senior management (excluding Directors) fell within the band of HKD1,000,001 to HKD2,000,000.

Further details of the remuneration of the Directors and the five highest paid individual are set out in notes 7 and 8 to the financial statements.

Nomination Committee

Membership

The Nomination Committee currently has three members, namely Mr. Se Hok Pan (Chairman), Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric. A majority of the members of the Nomination Committee, namely Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric, are independent non-executive Directors. Mr. Se Hok Pan, the chairman of the Nomination Committee, is the Chairman and an executive Director of the Company.

Responsibilities and work done

The Nomination Committee is responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment or re-appointment of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. As there has been no change to the Board composition during the year ended 31 December 2017, the Board has not dealt with or considered nomination of director during the year.

The works performed by the Nomination Committee during the year ended 31 December 2017 are as follows:

- reviewed the structure, size and composition of the Board;
- assessed the independence of independent non-executive Directors of the Company.

Corporate Governance Committee

Membership

The Corporate Governance Committee currently has three members, namely Mr. Se Hok Pan (Chairman), Mr. Ho King Fung, Eric and Mr. Teoh Chun Ming. Mr. Se Hok Pan is the Chairman and an executive Director of the Company. Mr. Ho King Fung, Eric is an independent non-executive Director and Mr. Teoh Chun Ming is a non-executive Director of the Company.

Responsibilities and work done

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

The works performed by the Corporate Governance Committee during the year ended 31 December 2017 are as follows:

- reviewed and monitored the training and continuous professional development of Directors and senior management;
- reviewed the Company's compliance with the Code; and
- reviewed the corporate governance report in the 2016 annual report.

Executive Committee

Membership

The Executive Committee currently has two executive Directors, namely Mr. Se Hok Pan (Chairman) and Ms. Un Son I.

Responsibilities and work done

The principal responsibilities of the Executive Committee include (i) implementing the business plan and company strategies as approved by the Board and developing specific implementation plan; and (ii) monitoring and overseeing the implementation of the budget as approved by the Board. During the year ended 31 December 2017, the Executive Committee has duly performed its responsibilities and contributed to the business development of the Group.

Risk Management and Internal Controls

The Board acknowledges its responsibility for the Group's risk management and internal control systems and reviewing their effectiveness to safeguard the Group's assets and the interests of shareholders, customers and employees. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the 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 establishing and maintaining appropriate and effective risk management and internal control systems. The internal audit department of the Group (the "Internal Audit Department") and the Audit Committee assist the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Group's risk management and internal control systems have been developed with the following principles, features and processes:

- (1) Identify significant risks in the Group's operation environment;
- (2) Evaluate the impacts of those risks on the Group's business and the likelihood of occurrence;
- (3) Determine the risk management strategies and internal control processes to prevent, avoid or mitigate the risks; and
- (4) Perform ongoing monitor, review and revise the strategies and processes in case of any significant change of situation, ensuring effective communication to the Audit Committee and the Board on all findings and the effectiveness of the systems regularly.

The Board, as supported by the Audit Committee as well as the Internal Audit Department, reviews the Group's risk management and internal control systems annually. The review includes major financial, operational and compliance controls, as well as risk management functions of different systems. The review also covered the resources, staff qualifications and experiences, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

The Board had conducted its annual review of the risk management and internal control systems during the Year and assessed their effectiveness. The Board considers them effective and adequate.

Internal Audit Functions and Effectiveness of Risk Management and Internal Control Systems

The Audit Committee is aware of the fact that an independent and adequately resourced internal audit function is essential to assist in obtaining the assurance it requires regarding the effectiveness of the system of internal controls. The Group has established an Internal Audit Department led by Ms. Un Son I, an executive Director, to carry out the analysis and independent review of the adequacy and effectiveness of the risk management and internal control systems on an ongoing basis. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and resolved material internal defects in accordance with the internal policies and would cover other review and investigation work as may be required. The Internal Control Department provided its findings and recommendations for improvement to the Audit Committee and the Board periodically.

Dissemination of Inside Information

The Group regulates the handling and dissemination of inside information according to internal procedures and policy so as to ensure inside information remains confidential until the disclosure and publication of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

The Board is responsible for approving the policy on disclosure of inside information which aims at providing guiding principles, practices and procedures to assist employees and officers of the Group in (i) relaying inside information to the Board to enable it to make timely decisions on disclosure, if necessary; and (ii) communicating with the Group's stakeholders, in ways which are in compliance with the Securities and Futures Ordinance (the "SFO") and the Listing Rules.

An employee who becomes aware of a matter or event that he/she considers to be material or inside information shall report to his division/department head who will assess the sensitivity of the relevant information and, if considered appropriate, escalate and report to the Board and/or the Company Secretary.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Upon being notified, the Board and/or the Company Secretary will assess the likely impact of any unexpected and significant event that may impact the share price and/or trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Group strictly prohibits unauthorized use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, Company Secretary and authorised persons are authorized to communicate with parties outside the Group.

Model Code for Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the year ended 31 December 2017.

External Auditors

KPMG are appointed as the external auditors of the Company upon the recommendation of the Audit Committee.

For the year ended 31 December 2017, the fees paid to KPMG for the audit and interim review of the financial statements of the Group are RMB3.65 million.

The non-audit services provided by KPMG to the Group during the Year include consultation services for taxation. The fees paid to KPMG for such non-audit services are RMB300,000 for the year ended 31 December 2017.

Accountability and Audit

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 48 to 53 of this report. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Shareholders

The Company is incorporated in the Cayman Islands. Pursuant to 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 carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be convened by the Board for the transaction of any business specified in such requisition. The written requisition shall be deposited at the Company's principal place of business at Suite 2601, 26/F., Tower 2, The Gateway, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong, marked for the attention of the Company Secretary. The general 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.

Pursuant to Article 85 of the articles of association of the Company, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including the annual general meeting), the shareholder should lodge a written notice at the registered office or the head office of the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. Such written notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director.

Enquiries may be put to the Board by contacting the Company's Investor Relations Department through shareholders' hotline (852) 2858 6665, email at info@nature-hk.hk or directly by raising the questions at an annual general meeting or extraordinary general meeting.

The Board recognizes the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. During the year ended 31 December 2017, the Company convened and held the 2017 AGM on 31 May 2017. The Chairman of the Board as well as Chairmen of the Audit, Remuneration, Nomination and Corporate Governance Committees (or their duly appointed delegates) together with the external auditor were present to answer shareholders' questions. An annual general meeting circular which sets out relevant information of the proposed resolutions was distributed to all shareholders at least 20 clear business days before the annual general meeting. For the 2017 AGM, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be passed by poll. The procedures for conducting a poll were explained at the meeting. A total of six ordinary resolutions, including considering the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2016 and approving the re-election of Directors, the re-appointment of the external auditors of the Company and the granting of general mandates to the Directors to repurchase and to issue shares of the Company were passed at the 2017 AGM. The results of the poll were published on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2017, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the websites of the Company and the Stock Exchange.

Environmental Policies and Performance

The Group fulfils its social responsibilities of protecting the environment by undertaking to promote social environmental protection in our business routines and activities. We give due consideration to environmental protection and conservation and incorporates environmentally friendly practices and measures into our daily course of business.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance ("ESG") Report on the website of the Company within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

REPORT OF THE DIRECTORS

The board of directors of the Company (the “Board”) is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”), for the year ended 31 December 2017.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are the manufacturing and sale of home decoration products, the provision of trademarks and distribution network and the trading of home decoration products. The principal activities of the Company’s major subsidiaries are set out in Note 14 to the financial statements.

Business Review

General

For the review of the business of the Group, the key financial performance indicators of the Group and an indication of likely future development in the Group’s business, please refer to the section headed “Management Discussion and Analysis” on pages 4 to 16 of this report.

Principal risks and uncertainties facing the Group

The Group’s principal business activities are mainly affected by the volatility and uncertainty of macro-economic conditions in Mainland China. The Group is also exposed to a variety of financial risks.

The financial risks of the Group include credit risk, liquidity risk, interest rate risk, currency risk, commodity price risk and equity price risk. These financial risks, and the related risk management policies and practices used by the Group are discussed in note 28 headed “Financial Risk Management and Fair Values” to the consolidated financial statements of this annual report.

Environmental policies and performance

In the aspect of environmental protection and sustainable development, the Group is committed to providing high quality and safe products to consumers, and has been organizing different environmental protection activities such as tree planting campaign. We believe that environmental protection is the basis for sustainable development of the Group. In the future, the Group will continue to fulfill its social responsibilities and make its contribution to environmental protection.

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including permit requirements.

REPORT OF THE DIRECTORS (CONTINUED)

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Compliance with Laws and Regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. During the year ended 31 December 2017, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

Account of the Group's key relationships

(i) **Employees**

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business.

(ii) **Customers**

We have successfully positioned our brand with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values. We are dedicated to provide green home decoration solutions and services to our customers. The Group regards the safety of our products, high quality of service and interest of customers as our top priorities.

(iii) **Distributors**

The Group branded products are sold primarily to retail consumers in Mainland China through an extensive nationwide distribution network of exclusive distributors and retail stores. Our nationwide distribution network comprised 4,890 retail stores. Our distribution network is closely managed and supported by our sales team with extensive experience in the industry. The Group recognizes the importance of building up a close and long-term business relationship with our distributors.

Final Dividend

The Board did not recommend any payment of final dividend for the year ended 31 December 2017.

Share Capital

Details of the Company's share capital are set out in Note 26 to the financial statements.

Purchase, Sale or Redemption of Securities

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

REPORT OF THE DIRECTORS (CONTINUED)

Directors

The Directors of the Company during the year were:

Executive Directors

Mr. Se Hok Pan (*Chairman*) (Note 1)
Mr. Liang Zhihua (*President*) (Note 1)
Ms. Un Son I
Mr. She Jian Bin

Non-executive Directors

Mr. Homer Sun
Mr. Teoh Chun Ming

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Zhang Sen Lin (Note 2)
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Alternate Director

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

In accordance with Article 84 of the articles of association of the Company, Mr. Se Hok Pan, Ms. Un Son I and Mr. Ho King Fung, Eric shall retire by rotation at the forthcoming annual general meeting and they, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

The Company has received an annual confirmation from each of the independent non-executive Directors as regards their independence to the Company, and considers them to be independent.

Notes:

- (1) Mr. Liang Zhihua was the President during the year ended 31 December 2017 and ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.
- (2) As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.

REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2017, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Name of Director	Number of shares held		Total	Percentage of shareholding (Note 1)
	Personal Interest	Corporate Interest		
Mr. Se Hok Pan (<i>Chairman</i>) (Note 5)	20,000,000 1,500,000 (Note 2)	678,768,000 (Note 3)	700,268,000	47.69%
	21,500,000			
Mr. Liang Zhihua (<i>President</i>) (Note 5)	22,576,780 (Note 2) 2,500,000 (Note 4)	Nil	25,076,780	1.71%
	25,076,780			
Ms. Un Son I	1,500,000 (Note 2)	678,768,000 (Note 3)	680,268,000	46.33%
Mr. She Jian Bin	1,500,000 (Note 2) 1,500,000 (Note 4)	Nil	3,000,000	0.20%
	3,000,000			
Mr. Teoh Chun Ming	4,677,900 (Note 2)	Nil	4,677,900	0.32%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Zhang Sen Lin (Note 6)	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 2)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 2)	Nil	1,000,000	0.07%

REPORT OF THE DIRECTORS (CONTINUED)

Notes:

1. Based on 1,468,237,990 shares of the Company in issue as at 31 December 2017.
2. These interests represent the options granted to the Directors pursuant to the terms of the share option schemes adopted by the Company, which entitle the Directors to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.
3. 678,768,000 shares are owned by Freewings Development Co., Ltd. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.
4. These interests represent the award shares granted to the Directors pursuant to the terms of the share award scheme adopted by the Company. Details of such award shares are disclosed under the paragraph headed "Share Award Scheme" below.
5. Mr. Liang Zhihua was the President during the year ended 31 December 2017 and ceased to be the President with effect from 1 February 2018. Mr. Se Hok Pan was appointed as the President on 1 February 2018.
6. As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.
7. All interests stated are long positions.

Equity-linked Agreements

Other than the Pre-IPO Share Option Scheme, the Share Option Scheme and the Share Award Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the year.

Share Option Schemes

Details of the Company's share option schemes are set out in Note 24(a) to the financial statements.

Pre-IPO Share Option Scheme

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

As at 31 December 2017, the maximum number of shares that may be issued pursuant to the options granted and outstanding under the Pre-IPO Share Option Scheme is 23,059,420 shares, representing approximately 1.57% of the issued share capital of the Company as at the date of this report.

REPORT OF THE DIRECTORS (CONTINUED)

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

For options granted on 17 December 2008

Vesting period	Maximum cumulative percentage of options vested
30 December 2008	10%
30 December 2009	20%
30 December of the year of the Listing Date (Being 26 May 2011)	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

For options granted on 1 July 2010

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

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

REPORT OF THE DIRECTORS (CONTINUED)

The exercise price per share for options granted under the Pre-IPO Share Option Scheme was determined by the Board with reference to the then fair market price per share as determined by an independent valuer appointed by the Company, which shall be subject to adjustment in the event of any alteration to the capital structure of the Company. The consideration payable for the acceptance of each grant of options under the Pre-IPO Share Option Scheme was HK\$1.00 (or the equivalent amount in RMB). Details of the share options movements during the year ended 31 December 2017 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of Grant	Exercise period	Exercise price per share	No. of Shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of Shares involved in the options outstanding at period end
Director of the Company							
Liang Zhihua	17/12/2008	17/12/2008–16/12/2018	HK\$2.35	576,780	—	—	576,780
	1/7/2010	1/7/2010–30/6/2020	HK\$3.38	7,000,000	—	—	7,000,000
Teoh Chun Ming	17/12/2008	17/12/2008–16/12/2018	HK\$2.35	1,677,900	—	—	1,677,900
	1/7/2010	1/7/2010–30/6/2020	HK\$3.38	1,500,000	—	—	1,500,000
Former Director of the Company							
Nam Cheung Ming	17/12/2008	17/12/2008–16/12/2018	HK\$2.35	1,887,640	—	—	1,887,640
Employees							
Employees	17/12/2008	17/12/2008–16/12/2018	HK\$2.35	8,867,870	—	1,950,770	6,917,100
	1/7/2010	1/7/2010–30/6/2020	HK\$3.38	3,500,000	—	—	3,500,000
Total				25,010,190	—	1,950,770	23,059,420

No option under the Pre-IPO Share Option Scheme has been granted or cancelled during the year ended 31 December 2017. No further option has been or will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

REPORT OF THE DIRECTORS (CONTINUED)

Share Option Scheme

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"), the purpose of which is to incentivize and reward eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto. Eligible persons under the Share Option Scheme include, among others, employees, Directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

The maximum number of shares which may be issued upon exercise of all options that are or may be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme equals to 10% of the shares in issue as at the Listing Date. Options lapsed or cancelled in accordance with the terms of the Pre-IPO Share Option Scheme or the Share Option Scheme will not be counted for the purpose of calculating this 10% limit.

As at 31 December 2017, the total number of shares which may be issued on the exercise of options granted or to be granted under the Share Option Scheme is 124,323,809, representing approximately 8.47% of the issued share capital of the Company as at the date of this report. In addition, no options shall be granted under the Share Option Scheme to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer, exceeds 1% of the shares in issue at such date.

An option granted under the Share Option Scheme shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer. Such terms and conditions may include a minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

The exercise price in respect of any option granted under the Share Option Scheme shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

- (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of offer;
- (ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and
- (iii) the nominal value of the shares.

An amount of HK\$1.00 is payable upon acceptance of the grant of options.

REPORT OF THE DIRECTORS (CONTINUED)

Details of the share options movements during the year ended 31 December 2017 under the Share Option Scheme are as follows:

Category of participants	Date of Grant	No. of shares involved in the options outstanding at the beginning of the year	Exercised during the year	Lapsed during the year	Granted during the year	No. of shares involved in the options outstanding at year end
Directors						
Se Hok Pan	4 January 2012	1,500,000	—	—	—	1,500,000
Liang Zhihua (also the President)	4 January 2012	15,000,000	—	—	—	15,000,000
Un Son I	4 January 2012	1,500,000	—	—	—	1,500,000
She Jian Bin	4 January 2012	1,500,000	—	—	—	1,500,000
Teoh Chun Ming	4 January 2012	1,500,000	—	—	—	1,500,000
Li Kwok Cheung, Arthur	4 January 2012	1,000,000	—	—	—	1,000,000
Zhang Sen Lin (Note 1)	4 January 2012	1,000,000	—	—	—	1,000,000
Chan Siu Wing, Raymond	4 January 2012	1,000,000	—	—	—	1,000,000
Ho King Fung, Eric	4 January 2012	1,000,000	—	—	—	1,000,000
Employees						
Employees	4 January 2012	43,000,000	—	—	—	43,000,000
	8 October 2013	18,800,000	—	3,400,000	—	15,400,000
Total		86,800,000	—	3,400,000	—	83,400,000

Notes:

- As announced by the Company on 22 March 2018, Mr. Zhang Sen Lin passed away on 20 March 2018.
- For options granted on 4 January 2012, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK\$1.45 per share.
- For options granted on 8 October 2013, they shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK\$1.61 per share.

During the year ended 31 December 2017, no option has been granted under the Share Option Scheme. Save as disclosed above, no option has been cancelled or lapsed during the year ended 31 December 2017.

REPORT OF THE DIRECTORS (CONTINUED)

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Share Award Scheme

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

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

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

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

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

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

REPORT OF THE DIRECTORS (CONTINUED)

Details of the Award Shares outstanding and movements during the year ended 31 December 2017 under the Share Award Scheme are set out as follows:

Category of participant	Date of Grant	Vesting Date	Number of Award Shares				Outstanding at the end of the period
			Outstanding at the beginning of the period	Granted during the period	Lapsed during the period	Vested during the period	
Directors of the Company							
Liang Zhihua	25 April 2016	31 March 2019 (Note)	2,500,000	—	—	—	2,500,000
She Jian Bin	25 April 2016	31 March 2019 (Note)	1,500,000	—	—	—	1,500,000
Employees							
Employees	25 April 2016	(i) 50% on 31 March 2018; and (ii) 50% on 31 March 2019	25,000,000	—	2,210,000	—	22,790,000
Total			29,000,000	—	2,210,000	—	26,790,000

Note: On 30 March 2018, the Company entered into a revised award letter with each of Mr. Liang Zhihua and Mr. She Jian Bin, pursuant to which the Company and each of Mr. Liang and Mr. She have agreed to amend the vesting schedule of their respective award shares such that 100% of the award shares shall be vested on 31 March 2019. For details, please refer to the announcement of the Company dated 2 April 2018.

Save as disclosed above, no Award Shares have been granted under the Share Award Scheme. Save as disclosed above, no Award Shares has been cancelled or lapsed during the year ended 31 December 2017.

REPORT OF THE DIRECTORS (CONTINUED)

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Rights to Acquire the Company's Securities

Save as disclosed under the sections "Share Option Schemes" above, at no time during the year or at the end of the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Connected Transaction

On 1 December 2017, China Wood Flooring Holding Company Limited ("China Wood"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Ample Connect Limited, pursuant to which China Wood has sold the entire issued share capital of the Nature Flooring (Europe) Company Limited ("Nature Flooring Europe") to Ample Connect, at a total cash consideration of RMB294,000 ("Disposal of Nature Flooring Europe"). Nature Flooring Europe is an investment holding company and its subsidiaries are principally engaged in the business of trading of timbers in the PRC and France. As the performance of such business had been unsatisfactory, the Group ceased to be engaged in such business upon completion of the Disposal of Nature Flooring Europe.

The Disposal of Nature Flooring Europe constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. For details of the Disposal of Nature Flooring Europe, please refer to the announcement of the Company dated 1 December 2017.

Directors' Interests in Transactions, Arrangements and Contracts of Significance

Save as disclosed under the section "Connected Transaction" above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company and/or any of its connected entity had a material interest, whether directly or indirectly, and no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

As at the date of this report, none of the Directors and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a Director and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Permitted Indemnity Provision

Pursuant to the Articles of Association of the Company, the Directors, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain in the execution of their duty. The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

REPORT OF THE DIRECTORS (CONTINUED)

Substantial Shareholders

As at 31 December 2017, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue (Note 1)
Freewings Development Co., Ltd.	Beneficial owner	678,768,000 (Note 2)	46.23%
Team One Investments Limited	Interest in controlled corporations	678,768,000 (Note 2)	46.23%
Trader World Limited	Interest in controlled corporations	678,768,000 (Note 2)	46.23%
North Haven Flooring Holding Co., Ltd. (formerly known as MS Flooring Holding Co., Ltd.)	Beneficial owner	269,999,990 (Note 3)	18.39%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd.	Interest in controlled corporations	269,999,990 (Note 3)	18.39%
Morgan Stanley Private Equity Asia III, Inc.	Interest in controlled corporations	269,999,990 (Note 3)	18.39%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in controlled corporations	269,999,990 (Note 3)	18.39%
North Haven Private Equity Asia III, L.P. (formerly known as Morgan Stanley Private Equity Asia III, L.P.)	Interest in controlled corporations	269,999,990 (Note 3)	18.39%
International Finance Corporation	Beneficial owner	108,000,000	7.36%
Weng Hou Investment Company Limited	Beneficial owner	76,300,000	5.20%

Notes:

- Based on 1,468,237,990 shares of the Company in issue as at 31 December 2017.
- Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 60.19% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan and Ms. Un Son I are directors of Freewings Development Co. Ltd..
- North Haven Flooring Holding Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is North Haven Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of North Haven Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.
- All interests stated are long positions.

REPORT OF THE DIRECTORS (CONTINUED)

Save as disclosed above, the Directors are not aware that there is any party who, as at 31 December 2017, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 146 of this annual report.

Bank Loans

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

Major Customers and Suppliers

The percentage of revenue attributable to the Group's five largest customers was less than 30% of the Group's total revenue for the year ended 31 December 2017. Purchases of raw materials attributable to the Group's five largest suppliers amounted to less than 30% of the Group's total cost of sales for the year ended 31 December 2017.

Emolument Policy

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees, including salaries and bonuses to qualified employees, as well as a long-term incentive scheme in the form of share option schemes and share award scheme for eligible employees, details of which are set out under the paragraphs headed "Share Option Schemes" and "Share Award Scheme" above.

Employee Retirement Benefits

During the year ended 31 December 2017, the Company has complied, in all material respects, with relevant PRC labour laws and regulations, including contributing to employee retirement benefit schemes, medical and social security insurance schemes and housing provident fund. In Hong Kong, the Company has participated in a mandatory provident fund scheme for its employees in Hong Kong in accordance with applicable Hong Kong laws and regulations.

REPORT OF THE DIRECTORS (CONTINUED)

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Donation

During the year ended 31 December 2017, the Group made a charitable donation amounting to RMB1,257,000.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited financial statements of the Group for the financial year ended 31 December 2017.

Auditors

The financial statements have been audited by KPMG who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board

Se Hok Pan
Chairman

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT



To the shareholders of Nature Home Holding Company Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Nature Home Holding Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 54 to 145, 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 statement of cash flows 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 ("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 ("HKSA") 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 (CONTINUED)

Key Audit Matters (Continued)**Trade and bills receivables**

Refer to note 1(l)(i) to the consolidated financial statements and the accounting policies on page 67.

The Key Audit Matter**How the matter was addressed in our audit**

At 31 December 2017, the Group's gross trade receivables and bills receivable totalled RMB1,279 million, against which impairment provisions for doubtful debts of RMB99 million were recorded.

The Group sells its products, which principally comprise wood and timber products, to the customers in the real estate industry or real estate related industries. Where the Group sells products directly to property developers, the Group receives payments based on the progress of the property development project and the Group receives retention money, which is calculated as a fixed percentage of the sales amount, one or two years after the property development project is completed. Where the Group sells products to the distributors, the Group generally grants a credit period of one to twelve months.

The Group's impairment provisions for doubtful debts are based on management's estimate of the recoverability of individual trade receivables and bills receivable, which is estimated by taking into account the credit history of the Group's customers and current market and customer-specific conditions, all of which involve a significant degree of management judgement.

We identified assessing impairment of trade receivables and bills receivable as a key audit matter because the assessment of the appropriate level of impairment requires the application of significant management judgement which could be subject to bias, in particular, when a receivable has been overdue for a long period.

Our audit procedures to assess impairment of trade receivables and bills receivable included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making impairment provisions for doubtful debts;
- assessing, on a sample basis, whether items in the trade receivables and bills receivable ageing report were classified within the appropriate ageing category by comparing individual items with the underlying sales invoices;
- obtaining an understanding of the basis of management's judgements about the recoverability of individual overdue balances and evaluating the impairment provisions for doubtful debts made by management for these individual balances, on a sample basis, with reference to the debtors' credit quality, previous collection experience, post year-end payment records, the industry in which the debtors are operating, the ageing of overdue balances and repayment arrangements agreed with specific debtors. This included inspecting relevant correspondence with individual debtors to identify any disputes;
- assessing the historical accuracy of the estimates made by management for impairment provisions for doubtful debts by comparing the level of provisions made by the management as at 31 December 2016 with the actual new provisions, write offs and recoveries in respect of trade receivables and bills receivable as at 31 December 2016 during the current year; and
- inspecting, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade receivables and bills receivable balances at 31 December 2017.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (Continued)**Valuation of inventories**

Refer to note 1(m) to the consolidated financial statements and the accounting policies on page 70.

The Key Audit Matter	How the matter was addressed in our audit
<p>Inventories, which comprise wooden flooring materials, wardrobes and cabinets and related raw materials, are carried at the lower of cost and net realisable value in the consolidated financial statements. The net carrying value of inventories at 31 December 2017 was RMB389 million.</p>	<p>Our audit procedures to assess the valuation of inventories included the following:</p>
<p>Sales of inventories can be volatile due to customer demand changing, competitors pricing their products aggressively and the introduction of new products and technology.</p>	<ul style="list-style-type: none"> • assessing the Group's inventory provisioning policy with reference to the requirements of the prevailing accounting standards; • assessing whether the provision for inventories at the end of the financial period was calculated in a manner consistent with the Group's inventory provisioning policy by recalculating the provision for inventories based on the percentages and other parameters in the Group's inventory provisioning policy;
<p>The Group typically sells slow moving inventories at a markdown from the original price to improve the Group's liquidity position. Accordingly, the future selling prices of some items of inventory may fall below their carrying value at the reporting date.</p>	<ul style="list-style-type: none"> • assessing, on a sample basis, whether items in the inventory ageing report were classified within the appropriate ageing category by comparing the individual items selected with goods receipt notes and/or production records;
<p>We identified the valuation of inventories as a key audit matter because management is required to exercise significant judgement in determining an appropriate level of provision for inventories which involves predicting the future sales of inventories and the markdowns necessary to sell slow moving inventories on a discounted basis. Both of these factors can be inherently uncertain.</p>	<ul style="list-style-type: none"> • assessing, on a sample basis, whether inventories were sold at prices above their carrying values subsequent to the year end by comparing the cost of each individual item selected with actual selling prices (less distribution costs) achieved after the financial year end; and • assessing the historical accuracy of management's process for calculating the provision for inventories by examining the utilisation or release of the provision recorded at the end of the previous financial year during the current year.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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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.

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 Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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 Denise S.N. Leung.

KPMG

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

29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	2017 RMB'000	2016 RMB'000
Revenue	3	2,550,646	2,315,651
Cost of sales		(1,773,963)	(1,670,716)
Gross profit		776,683	644,935
Other income	4(a)	29,785	22,934
Distribution costs		(349,743)	(314,026)
Administrative expenses		(262,225)	(243,020)
Other operating expenses	4(b)	(51,172)	(44,387)
Profit from operations		143,328	66,436
Finance income		22,815	23,412
Finance costs		(29,476)	(30,658)
Net finance costs	5(a)	(6,661)	(7,246)
Profit before taxation	5	136,667	59,190
Income tax	6(a)	(83,201)	(57,368)
Profit for the year		53,466	1,822
Attributable to:			
Equity shareholders of the Company		68,182	38,280
Non-controlling interests		(14,716)	(36,458)
Profit for the year		53,466	1,822
Earnings per share (RMB):			
Basic and diluted	9	0.047	0.026

The notes on pages 62 to 145 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 27(i).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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	Note	2017 RMB'000	2016 RMB'000
Profit for the year		53,466	1,822
Other comprehensive income for the year (after tax and reclassification adjustments)	10		
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of entities not using RMB as functional currency		(23,805)	14,318
Exchange differences reclassified to profit or loss upon disposal and deconsolidation of subsidiaries		1,961	7,892
Available-for-sale securities:			
— net movement in the fair value reserve		2,087	(10,735)
— reclassified to profit or loss		—	19,221
Other comprehensive income for the year		(19,757)	30,696
Total comprehensive income for the year		33,709	32,518
Attributable to:			
Equity shareholders of the Company		48,408	69,332
Non-controlling interests		(14,699)	(36,814)
Total comprehensive income for the year		33,709	32,518

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

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	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment properties	11	61,337	64,085
Other property, plant and equipment	11	809,240	780,725
		870,577	844,810
Intangible assets			
Intangible assets	12	14,633	14,529
Lease prepayments	13	170,948	144,549
Interest in associates		1,569	19
Other financial assets	15	75,376	85,709
Deposits, derivatives, prepayments and other receivables	18	21,411	33,839
Deferred tax assets	25(c)	30,490	24,505
		1,185,004	1,147,960
Current assets			
Inventories	16	389,089	404,077
Trade and bills receivables	17	1,180,388	1,091,312
Deposits, prepayments and other receivables	18	255,262	170,819
Restricted deposits	19	241,921	256,311
Cash and cash equivalents	20	749,862	618,703
		2,816,522	2,541,222
Current liabilities			
Trade and bills payables	21	609,164	585,152
Deposits received, accruals and other payables	22	384,584	313,125
Bank loans	23	665,361	585,060
Current taxation	25(a)	22,635	24,536
		1,681,744	1,507,873
Net current assets		1,134,778	1,033,349
Total assets less current liabilities		2,319,782	2,181,309

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Expressed in Renminbi)

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	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank loans	23	103,900	88,510
Deferred tax liabilities	25(c)	35,203	9,760
		139,103	98,270
NET ASSETS			
		2,180,679	2,083,039
CAPITAL AND RESERVES			
Share capital	26	9,596	9,596
Reserves	27	2,105,760	2,047,511
Total equity attributable to equity shareholders of the Company		2,115,356	2,057,107
Non-controlling interests		65,323	25,932
TOTAL EQUITY		2,180,679	2,083,039

Approved and authorised for issue by the board of directors on 29 March 2018.

Se Hok Pan
Executive Director

Liang Zihua
Executive Director

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity shareholders of the Company												
	Share capital	Share premium	Share Award Scheme	Other treasury Shares	Capital redemption reserve	Statutory surplus reserve	Exchange reserve	Fair value reserve	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 27(d))	(Note 24(b)(i))	(Note 24(b)(i))	(Note 27(e))	(Note 27(a))	(Note 27(b))	(Note 27(f))	(Note 27(c))				
Balance at 1 January 2017	9,596	960,406	(31,269)	—	84	190,536	10,825	14,455	76,383	826,091	2,057,107	25,932	2,083,039
Changes in equity for 2017													
Profit for the year	—	—	—	—	—	—	—	—	—	68,182	68,182	(14,716)	53,466
Other comprehensive income	—	—	—	—	—	—	(21,861)	2,087	—	—	(19,774)	17	(19,757)
Total comprehensive income	—	—	—	—	—	—	(21,861)	2,087	—	68,182	48,408	(14,699)	33,709
Capital injection from non-controlling interest shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	53,277	53,277
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	—	—	950	950
Disposal of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	(137)	(137)
Transfer to statutory surplus reserve	—	—	—	—	—	8,365	—	—	—	(8,365)	—	—	—
Share options forfeited during the year (note 24(a))	—	—	—	—	—	—	—	—	(2,912)	2,912	—	—	—
Shares transferred to other treasury shares upon share award forfeiture (note 24(b))	—	—	2,382	(2,382)	—	—	—	—	—	—	—	—	—
Equity settled Share Award Scheme (note 24(b))	—	—	—	—	—	—	—	—	9,841	—	9,841	—	9,841
As at 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	198,901	(11,036)	16,542	83,312	888,820	2,115,356	65,323	2,180,679

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

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

	Attributable to equity shareholders of the Company											
	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 27(d))	Share held for the Share Award Scheme RMB'000 (Note 24(b)(i))	Capital redemption reserve RMB'000 (Note 27(e))	Statutory surplus reserve RMB'000 (Note 27(a))	Exchange reserve RMB'000 (Note 27(b))	Fair value reserve RMB'000 (Note 27(f))	Other reserves RMB'000 (Note 27(c))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2016	9,596	1,110,296	—	84	183,195	(11,741)	5,969	68,634	794,154	2,160,187	52,526	2,212,713
Changes in equity for 2016												
Profit for the year	—	—	—	—	—	—	—	—	38,280	38,280	(36,458)	1,822
Other comprehensive income	—	—	—	—	—	22,566	8,486	—	—	31,052	(356)	30,696
Total comprehensive income	—	—	—	—	—	22,566	8,486	—	38,280	69,332	(36,814)	32,518
Dividends approved in respect of the current year (note 27(ii))	—	(149,890)	—	—	—	—	—	—	—	(149,890)	—	(149,890)
Disposal of subsidiaries	—	—	—	—	(235)	—	—	—	235	—	—	—
Capital injection from a non-controlling interest shareholder of a subsidiary	—	—	—	—	—	—	—	—	—	—	10,220	10,220
Transfer to statutory surplus reserve	—	—	—	—	7,576	—	—	—	(7,576)	—	—	—
Equity settled Share Option Schemes (note 24(a))	—	—	—	—	—	—	—	1,171	—	1,171	—	1,171
Share options forfeited during the year (note 24(a))	—	—	—	—	—	—	—	(998)	998	—	—	—
Equity settled Share Award Scheme (note 24(b))	—	—	—	—	—	—	—	7,576	—	7,576	—	7,576
Share purchased for the Share Award Scheme (note 24(b)(i))	—	—	(31,269)	—	—	—	—	—	—	(31,269)	—	(31,269)
As at 31 December 2016	9,596	960,406	(31,269)	84	190,536	10,825	14,455	76,383	826,091	2,057,107	25,932	2,083,039

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Cash generated from operations	20(b)	188,474	351,261
Tax paid:			
— The People's Republic of China (the "PRC") income tax paid	25(a)	(66,201)	(48,610)
— Non-PRC income tax paid	25(a)	(139)	(107)
Net cash generated from operating activities		122,134	302,544
Investing activities			
Payment for acquisition of			
— property, plant and equipment		(117,793)	(90,917)
— lease prepayments		(5,080)	—
— intangible assets		(3,519)	(760)
Proceeds from disposal of property, plant and equipment and intangible assets		13,047	2,484
Payment for acquisition of			
— available-for-sale unlisted securities	15	(10,995)	(14,830)
— securities classified as fair value through profit or loss	4(b)(i)	(7,850)	—
Proceeds from sale of:			
— available-for-sale securities		2,763	7,389
— financial assets at fair value through profit or loss		—	54,810
Net cash outflow from acquisition of a subsidiary	14(b)	(27,013)	(44,142)
Net cash inflow from disposal of subsidiaries		640	133,872
Payment for acquisition of interest in associates		(1,925)	—
Interest received		9,378	13,562
Capitalised interest paid	5(a)	(5,574)	(3,266)
Net cash (used in)/generated from investing activities		(153,921)	58,202

The notes on pages 62 to 145 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

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

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	Note	2017 RMB'000	2016 RMB'000
Financing activities			
Proceeds from bank loans	20(c)	547,968	888,660
Repayment of bank loans	20(c)	(421,221)	(848,555)
Repayment of a loan due to the ex-shareholder of Guangxi Bigao		—	(42,227)
Proceeds from maturity of restricted deposit		122,067	111,499
Payment for restricted deposit		(107,677)	(256,311)
Dividends paid	27(i)	—	(149,890)
Interest paid	5(a)/20(c)	(29,476)	(30,658)
Purchase of own shares		—	(31,269)
Proceeds from capital injection of non-controlling interests		53,277	10,220
Net cash generated from/(used in) financing activities		164,938	(348,531)
Net increase in cash and cash equivalents		133,151	12,216
Cash and cash equivalents at 1 January		618,703	602,825
Effect of foreign exchange rate changes		(1,992)	3,662
Cash and cash equivalents at 31 December	20	749,862	618,703

The notes on pages 62 to 145 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 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 Interpretations issued by the International Accounting Standards Board (“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 of Hong Kong Limited. A summary of the significant accounting policies adopted by Nature Home Holding Company Limited (the “Company”) and its subsidiaries (together the “Group”) is set out 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 and the Company. Note 1(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 Company and its subsidiaries and the Group’s interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- available-for-sale equity securities (see note 1(f));
- derivative financial instruments (see note 1(g));
- financial assets at fair value through profit or loss (see note 1(n)(i))

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 2.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(c) Changes in accounting policies

The IASB has issued a number of 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 20(c) 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 and non-controlling interests

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 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. The Group measure any non-controlling interests at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, and investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)**(e) Associates**

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(n)).

(f) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(r)(iv) and (v).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(f) Investments in equity securities (Continued)

Investments in securities which do not fall into investments in securities held for trading or held-to-maturity securities are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)).

When the investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are accounted for using the cost model and stated in the statement of financial position at cost less accumulated depreciation, amortisation and impairment losses (see note 1(l)). The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated or amortised using the straight-line method over its estimated useful life. Land in Peru is not depreciated. Rental income from investment properties is accounted for as described in note 1(r)(iii).

The estimated useful lives of investment properties are as follows:

- Land use right 45 years
- Buildings 30 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)*(i) Other property, plant and equipment*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)).

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 1(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 basis over their estimated useful lives, and is recognised in profit or loss.

The estimated useful lives of property, plant and equipment are as follows:

- Buildings and plant 20–30 years
- Machinery and equipment 5–10 years
- Motor vehicles 5 years
- Office equipment and furniture 3–5 years
- Leasehold improvements are depreciated over the shorter of their estimated useful lives, being 3 years from the date of completion, and the unexpired terms of the lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Construction in progress represents property, plant and equipment items which are under construction or machinery pending for installation, which is stated at cost less impairment losses (see note 1(l)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. No depreciation is provided in respect of construction in progress.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(j) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are stated at cost less accumulated amortisation and impairment losses (see note 1(l)).

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated brands, is recognised in profit or loss as incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- | | |
|---------------------|------------|
| • Patents | 7–10 years |
| • Computer software | 5–10 years |

Both the period and the method of amortisation are reviewed annually.

(k) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (see note 1(l)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of rights which are 34 to 50 years.

(l) Impairment of assets

(i) Impairment of interest in associates, available-for-sale equity securities and other receivables

Interest in associates, available-for-sale equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities 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 interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)*(l) Impairment of assets (Continued)***(i) Impairment of interest in associates, available-for-sale equity securities and other receivables (Continued)**

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For interest in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).
- For unlisted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unlisted equity securities carried at cost are not reversed.
- For trade and other receivables 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.

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.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is 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 trade debtors and bills 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(l) Impairment of assets (Continued)

(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;
- lease prepayments;
- intangible assets;
- interest in associates; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- **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).

- **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 first to reduce the carrying amount of any goodwill, if any, allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)*(l) Impairment of assets (Continued)***(iii) Interim financial reporting and impairment**

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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 1(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale unlisted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(n) Financial instruments

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction cost.

Financial assets at fair value through profit or loss are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. Any income earned on these financial assets is recognised in profit or loss.

(ii) Non-derivative financial assets and financial liabilities

Non-derivative financial assets and financial liabilities comprise the followings:

(i) 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 1(l)), 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.

(ii) 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, having been within three months of maturity at acquisition.

(iii) 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.

(iv) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 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. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in other reserves within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to other reserves. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to other reserves) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserves until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(p) *Income tax (Continued)*

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.

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)*(q) Provisions and contingent liabilities*

Provision are recognised for other 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 goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Trademark and distribution network usage fees

Revenue from provision of trademark and distribution network usage is accrued in accordance with the terms of the relevant agreements with reference to the sales volume and sales amount of the manufacturers of the wood flooring products.

(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. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(r) Revenue recognition (Continued)

(v) Interest income

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

(vi) 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 deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated 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 using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi ("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.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(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 or sale 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 or sale 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 or sale are interrupted or complete.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 Significant Accounting Policies (Continued)*(u) Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(v) 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 (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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1 Significant Accounting Policies (Continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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.

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 and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, 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.

2 Significant Accounting Judgements and Estimates

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Notes 24 and 28 contain information about the assumptions and their risk factors relating to valuation of fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation

Investment properties, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(b) Impairments

In considering the impairment losses that may be required for certain property, plant and equipment, intangible assets, lease prepayments, investment properties, interest in associates, available-for-sale unlisted equity securities and investments in subsidiaries in the Company's statement of financial position, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable and supportable assumptions and projections of items such as revenue and operating costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 Significant Accounting Judgements and Estimates (Continued)*(b) Impairments (Continued)*

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the profit or loss in future periods.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycle. Management reassess these estimates at each reporting period end date.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for unused tax losses and deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

3 Revenue and Segment Reporting*(a) Revenue*

The principal activities of the Group are manufacturing and sale of home decoration products, provision of trademark and distribution network, trading of timber and home decoration products. The amount of each significant category of revenue recognised in revenue is disclosed in segment reporting.

The Group's customer base is diversified and includes only one (2016: one) customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2017. In 2017, revenue from sales of home decoration products to this customer amounted to approximately RMB397,692,000 (2016: RMB338,538,000) and arose only in PRC by geographical region in which the home decoration products division is active. Details of concentrations of credit risk arising from this customer are set out in note 28(a).

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

(b) Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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3 Revenue and Segment Reporting (Continued)

(b) Segment reporting (Continued)

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

(i) Segment results, assets and liabilities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Manufacturing and sale of home decoration products		Provision of trademark and distribution network		Trading of timber and home decoration products		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue from external customers	2,027,915	1,665,168	230,443	220,662	292,288	428,365	2,550,646	2,314,195
Inter-segment revenue	10,149	15,466	—	—	107,196	95,614	117,345	111,080
Reportable segment revenue	2,038,064	1,680,634	230,443	220,662	399,484	523,979	2,667,991	2,425,275
Reportable segment gross profit/(loss)	521,398	431,589	224,952	214,436	30,333	(747)	776,683	645,278
Interest income from bank deposits	12,322	15,516	—	—	888	81	13,210	15,597
Interest expense	(26,014)	(25,253)	—	—	(3,462)	(2,773)	(29,476)	(28,026)
Depreciation and amortisation for the year	(74,515)	(66,760)	—	—	(9,944)	(3,526)	(84,459)	(70,286)
Net impairment losses recognised for trade receivables during the year	(13,815)	(7,884)	—	(10)	(14,828)	(31,334)	(28,643)	(39,228)
Reportable segment assets	2,695,093	2,341,046	108,601	124,894	703,884	991,548	3,507,578	3,457,488
Additions to non-current segment assets during the year	108,578	162,781	—	—	9,074	2,687	117,652	165,468
Reportable segment liabilities	1,025,137	835,835	—	—	1,424,569	1,751,884	2,449,706	2,587,719

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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3 Revenue and Segment Reporting (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2017 RMB'000	2016 RMB'000
Revenue		
Reportable segment revenue	2,667,991	2,425,275
Elimination of inter-segment revenue	(117,345)	(111,080)
Revenue of forestry management segment disposed in 2016	—	1,456
Consolidated revenue	2,550,646	2,315,651
Profit		
Reportable segment gross profit	776,683	645,279
Segment loss of forestry management disposed in 2016	—	(344)
Consolidated gross profit	776,683	644,935
Assets		
Reportable segment assets	3,507,578	3,457,488
Elimination of inter-segment balances	(360,966)	(440,478)
Elimination of receivables from corporate headquarters	(476,190)	(493,809)
	2,670,422	2,523,201
Cash and cash equivalents	749,862	618,703
Restricted deposits	241,921	256,311
Interest in associates	1,569	19
Other non-current financial assets	75,376	85,709
Deferred tax assets	30,490	24,505
Unallocated head office and corporate assets	231,886	180,734
Consolidated total assets	4,001,526	3,689,182

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and Segment Reporting (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (Continued)

	2017 RMB'000	2016 RMB'000
Liabilities		
Reportable segment liabilities	2,449,706	2,587,719
Elimination of inter-segment balances	(360,966)	(440,478)
Elimination of payables to corporate headquarters	(1,145,380)	(1,287,178)
	943,360	860,063
Banks loans	769,261	673,570
Current taxation	22,635	24,536
Deferred tax liabilities	35,203	9,760
Unallocated head office and corporate liabilities	50,388	38,214
Consolidated total liabilities	1,820,847	1,606,143

(iii) Geographic information

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

	Revenue from external customers		Specified non-current assets	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
The PRC, Hong Kong and Macau	2,467,804	2,118,731	1,004,653	935,860
Peru	1,681	129,178	51,732	66,149
USA	81,161	67,742	1,342	1,898
	2,550,646	2,315,651	1,057,727	1,003,907

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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4 Other Income/Other Operating Expenses

(a) Other income

	2017 RMB'000	2016 RMB'000
Government grants (i)	12,075	7,445
Rental income from operating leases		
— investment properties	873	968
— machineries	12,145	9,834
Net unrealised gains on share call options investment	—	2,121
Change in fair value of financial assets at fair value through profit or loss	—	418
Net gain on disposal of subsidiaries (note 30(a))	2,433	—
Others	2,259	2,148
	29,785	22,934

(i) Government grants mainly represented unconditional cash awards granted by the government authorities in the PRC.

(b) Other operating expenses

	2017 RMB'000	2016 RMB'000
Available-for-sale securities:		
— on impairment (note 15)	22,158	15,253
— on disposal	—	5,823
Net unrealised loss of share call options investment	2,057	—
Change in fair value of financial assets through profit or loss (i)	20,273	—
Impairment losses of interest in associates	375	—
Net loss on disposal of property, plant and equipment	3,331	5,984
Net loss on disposal of subsidiaries	—	9,765
Donations	1,257	1,105
Others	1,721	6,457
	51,172	44,387

(i) During the year ended 31 December 2017, the Group purchased convertible notes and warrants issued by an entity for a consideration of USD3,000,000 (approximately RMB20,568,000), which is consisted of cash of USD1,145,000 (approximately RMB7,850,000) and trade receivables due from the entity of USD1,855,000 (approximately RMB12,718,000). The entity filed for creditor protection on 31 October 2017. Based on the latest financial statement, the entity was loss making and recorded net liabilities. Changes in fair value of convertible notes and warranty amounted to RMB20,273,000 was debited to profit or loss account for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 Profit Before Taxation

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

(a) Finance income and finance costs

	2017 RMB'000	2016 RMB'000
Interest income on bank deposits	(13,210)	(15,597)
Net foreign exchange gain	(9,605)	(7,815)
Finance income	(22,815)	(23,412)
Interest expense on bank loans	35,050	33,924
Less: interest expense capitalised*	(5,574)	(3,266)
Finance costs	29,476	30,658
Net finance costs	6,661	7,246

* The borrowing costs have been capitalised at a rate of 5.880–6.370% per annum in 2017 (2016: 5.880–6.695%).

(b) Staff costs

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	273,887	244,581
Contributions to defined contribution retirement plan	14,110	11,350
Equity settled share-based payment expenses (note 24)	9,841	8,747
	297,838	264,678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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5 Profit Before Taxation (Continued)

(b) Staff costs (Continued)

The employees of the companies in the PRC participate in a defined contribution retirement scheme operated by the local government authorities whereby the Group is required to contribute to the scheme at rate of 10% to 22% of the eligible employees' monthly salary. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Contributions to the Mandatory Provident Fund ("MPF") are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000.

In accordance with the general regime of The Social Security System, which enrolls Macau SAR residents in, employees and employers are required to make obligatory contribution to the Social Security Fund. The current contribution amounts for long-term employee are MOP45 per month (the employer's portion: MOP30; the employee's portion: MOP15), paid on a quarterly basis, i.e. for the preceding quarter paid in January, April, July and October.

(c) Other items

	Note	2017 RMB'000	2016 RMB'000
Cost of inventories*	16	1,768,472	1,664,490
Impairment losses recognised			
— trade and bills receivables	17(b)	28,643	39,228
Depreciation	11(a)	78,680	67,741
Amortisation			
— lease prepayments	13	2,880	2,057
— intangible assets	12	2,899	2,618
Operating lease charges: minimum lease payments		23,427	21,341
Auditors' remuneration			
— audit services		4,143	4,001
— other services		300	371

* For the year ended 31 December 2017, cost of inventories includes RMB175,183,000 (2016: RMB158,739,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, amounts of which are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 Income Tax in the Consolidated Statement of Profit or Loss

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

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for income tax (note 25(a))		
— in the PRC	63,843	58,992
— other jurisdictions	—	402
Under-provision in respect of prior years	596	2,753
	64,439	62,147
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	(6,238)	(4,779)
Provision of withholding tax on retained profits (note 25(e))	25,000	—
	18,762	(4,779)
	83,201	57,368

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

	2017 RMB'000	2016 RMB'000
Profit before taxation	136,667	59,190
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	50,713	49,084
Effect of tax concessions (ii)	(13,772)	(7,824)
Tax effect of:		
— non-deductible expenses	2,576	2,339
— non-taxable income	(784)	(3,036)
— current-year losses for which no deferred tax asset is recognised	19,626	25,722
Effect of previously tax loss		
— recognised in current-year	—	(451)
— not recognised in prior years but utilised in current year	(754)	(11,219)
Under-provision in respect of prior years	596	2,753
Provision of withholding tax on retained profits (note 25(e))	25,000	—
Income tax expense	83,201	57,368

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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6 Income Tax in the Consolidated Statement of Profit or Loss (Continued)

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

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The Group’s subsidiaries incorporated in the USA were subject to federal income tax at progressive rates from 15% to 35% and state income tax for the years ended 31 December 2017 and 2016.

The Group’s subsidiaries incorporated in Hong Kong were subject to Hong Kong Profits Tax rate of 16.5% for the years ended 31 December 2017 and 2016.

The Group’s subsidiaries incorporated in Macau were subject to Macau Complementary Tax. The provision for Macau Complementary Tax for the years ended 31 December 2017 and 2016 is calculated at the rate of 12%, of which assessable profits of the first MOP300,000 is exempted from tax.

The Group’s subsidiaries incorporated in Peru were subject to income tax rates from 5% to 29.5% for the year ended 31 December 2017 (2016: 5% to 28%).

The statutory income tax rate applicable to the Group’s subsidiaries in the PRC is 25% for the years ended 31 December 2017 and 2016.

- (ii) Guangxi Baijing Flooring Co., Ltd (“Guangxi Baijing”) is recognised as qualified enterprise located in the western region of the PRC. Guangxi Baijing enjoys preferential enterprise income tax rate of 15% from 2016 to 2020, pursuant to CaiShui [2011] No. 58. In addition, 40% of income tax that has to pay to local taxation bureau is exempted as agreed by the local taxation bureau. The effective PRC income tax rate applicable to Guangxi Baijing is 9%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries allowances, and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement contribution scheme RMB'000	Sub-total RMB'000	Equity settled share-based payment RMB'000 (note (i))	2017 Total RMB'000
Chairman							
Mr. Se Hok Pan	—	520	2,464	—	2,984	—	2,984
Executive directors							
Ms. Un Son I	—	451	1,794	—	2,245	—	2,245
Mr. She Jian Bin	—	509	386	5	900	584	1,484
Mr. Liang Zhihua	—	243	773	4	1,020	973	1,993
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Teoh Chun Ming	167	—	—	—	167	—	167
Independent non-executive directors							
Professor Li Kwok Cheung, Arthur	167	—	—	—	167	—	167
Mr. Zhang Sen Lin	167	—	—	—	167	—	167
Mr. Chan Siu Wing, Raymond	167	—	—	—	167	—	167
Mr. Ho King Fung, Eric	167	—	—	—	167	—	167
	835	1,723	5,417	9	7,984	1,557	9,541

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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7 Directors' Emoluments (Continued)

	Directors' fees RMB'000	Salaries allowances, and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement contribution scheme RMB'000	Sub-total RMB'000	Equity settled share-based payment RMB'000 (note (i))	2016 Total RMB'000
Chairman							
Mr. Se Hok Pan	—	539	2,633	—	3,172	—	3,172
Executive directors							
Ms. Un Son I	—	469	1,917	—	2,386	—	2,386
Mr. She Jian Bin	—	531	411	7	949	400	1,349
Mr. Liang Zhihua	—	261	828	4	1,093	667	1,760
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Teoh Chun Ming	179	—	—	—	179	—	179
Independent non-executive directors							
Professor Li Kwok Cheung, Arthur	179	—	—	—	179	—	179
Mr. Zhang Sen Lin	179	—	—	—	179	—	179
Mr. Chan Siu Wing, Raymond	179	—	—	—	179	—	179
Mr. Ho King Fung, Eric	179	—	—	—	179	—	179
	895	1,800	5,789	11	8,495	1,067	9,562

Note (i): These represent the estimated value of share options and share award granted to the directors under the Company's Share Option Scheme and Share Award Scheme. The value of these share options and share award are measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Schemes" and "Share Award Scheme" in the directors' report and note 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

8 Individual with Highest Emoluments

Of the five individuals with the highest emoluments, four (2016: four) are directors whose emoluments are disclosed in note 7. The emoluments in respect of the other individual (2016: one) are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	1,195	1,279
Retirement contributions scheme	15	16
	1,210	1,295

The emoluments of the individual (2016: one) with the highest emoluments are within the following band:

	Number of individuals	
Hong Kong Dollar ("HKD")	2017	2016
1,000,001–1,500,000	1	1

9 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of RMB68,182,000 (2016: RMB38,280,000) and the weighted average of 1,439,238,000 ordinary shares (2016: 1,465,362,000) in issue, calculated as follows:

Weighted average number of ordinary shares

	2017 '000	2016 '000
Issued ordinary shares at 1 January	1,468,238	1,468,238
Effect of purchase of shares under the Share Award Scheme	(26,790)	(2,876)
Other treasury shares	(2,210)	—
Weighted average number of ordinary shares at 31 December	1,439,238	1,465,362

(b) Diluted earnings per share

For the years ended 31 December 2017 and 2016, the effect of the Company's outstanding share options was anti-dilutive. Therefore, diluted earnings per share were the same as the basic earnings per share.

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10 Other Comprehensive Income

Tax effects relating to each component of other comprehensive income

	2017			2016		
	Before-tax amount RMB'000	Tax expense RMB'000	Net-of tax amount RMB'000	Before-tax amount RMB'000	Tax expense RMB'000	Net-of tax amount RMB'000
Exchange differences on translation of financial statements of entities not using RMB as functional currency	(23,805)	—	(23,805)	14,318	—	14,318
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	1,961	—	1,961	7,892	—	7,892
Net changes related to exchange differences	(21,844)	—	(21,844)	22,210	—	22,210
Available-for-sale securities:						
— net movement in fair value reserve	2,783	(696)	2,087	(11,225)	490	(10,735)
— reclassification adjustments for amounts transferred to profit or loss	—	—	—	19,221	—	19,221
Other comprehensive income	(19,061)	(696)	(19,757)	30,206	490	30,696

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 Investment Properties, Other Property, Plant and Equipment

(a) Reconciliation of carrying amount

	Land, buildings and plant RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and furniture RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
Cost:									
At 1 January 2016	277,810	11,530	465,195	18,737	24,183	96,003	893,458	57,324	950,782
Exchange adjustments	1,402	16	4,132	462	157	52	6,221	—	6,221
Additions	7,165	890	39,996	950	942	82,291	132,234	—	132,234
Additions through acquisition of a subsidiary	47,956	—	42,790	298	425	700	92,169	—	92,169
Transfer from construction in progress	38,843	—	11,397	—	28	(50,268)	—	—	—
Transfer from other property, plant and equipment to investment properties	(19,378)	—	—	—	—	—	(19,378)	19,378	—
Disposals	(2,792)	—	(10,974)	(1,295)	(574)	—	(15,635)	—	(15,635)
Disposal of a subsidiary	—	—	—	—	(105)	—	(105)	—	(105)
At 31 December 2016	351,006	12,436	552,536	19,152	25,056	128,778	1,088,964	76,702	1,165,666
At 1 January 2017	351,006	12,436	552,536	19,152	25,056	128,778	1,088,964	76,702	1,165,666
Exchange adjustments	(2)	(245)	(1,574)	(303)	(123)	—	(2,247)	—	(2,247)
Additions	3,012	3,195	9,457	635	1,367	82,359	100,025	—	100,025
Additions through acquisition of a subsidiary (note 14(b))	—	4,371	15,386	276	1,230	187	21,450	—	21,450
Transfer from construction in progress	255	—	15,047	200	421	(15,923)	—	—	—
Disposals	(2,080)	(1,198)	(16,499)	(474)	(1,504)	(4,078)	(25,833)	—	(25,833)
At 31 December 2017	352,191	18,559	574,353	19,486	26,447	191,323	1,182,359	76,702	1,259,061
Accumulated depreciation:									
At 1 January 2016	47,371	10,036	153,833	10,960	12,846	—	235,046	9,694	244,740
Exchange adjustments	79	—	1,004	197	9	—	1,289	—	1,289
Charge for the year	17,065	724	42,444	1,842	4,043	—	66,118	1,623	67,741
Transfer from other property, plant and equipment to investment properties	(1,300)	—	—	—	—	—	(1,300)	1,300	—
Disposals	(95)	—	(5,983)	(1,257)	(304)	—	(7,639)	—	(7,639)
Disposal of a subsidiary	—	—	—	—	(70)	—	(70)	—	(70)
At 31 December 2016	63,120	10,760	191,298	11,742	16,524	—	293,444	12,617	306,061
At 1 January 2017	63,120	10,760	191,298	11,742	16,524	—	293,444	12,617	306,061
Exchange adjustments	(1)	—	(1,356)	(207)	(59)	—	(1,623)	544	(1,079)
Charge for the year	18,300	2,549	48,971	2,917	3,739	—	76,476	2,204	78,680
Disposals	(1,215)	—	(5,722)	(404)	(862)	—	(8,203)	—	(8,203)
At 31 December 2017	80,204	13,309	233,191	14,048	19,342	—	360,094	15,365	375,459
Impairment loss :									
At 1 January 2016 and 31 December 2016	6,877	—	7,225	235	458	—	14,795	—	14,795
Exchange adjustments	(3)	—	(41)	(1)	7	—	(38)	—	(38)
Disposals	(899)	—	(809)	(22)	(2)	—	(1,732)	—	(1,732)
At 31 December 2017	5,975	—	6,375	212	463	—	13,025	—	13,025
Net book value:									
At 31 December 2017	266,012	5,250	334,787	5,226	6,642	191,323	809,240	61,337	870,577
At 31 December 2016	281,009	1,676	354,013	7,175	8,074	128,778	780,725	64,085	844,810

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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11 Investment Properties, Other Property, Plant and Equipment (Continued)*(a) Reconciliation of carrying amount (Continued)*

As at 31 December 2017, certain buildings and plants with carrying value of RMB149,008,000 were pledged to secure the Group's bank loans (2016: RMB148,200,000) (note 23(ii)). As at 31 December 2016, investment properties of RMB5,590,000 were pledged to secure the Group's bank loans. The related pledge was released as the loan was repaid during the year ended 31 December 2017 (note 23(ii)).

(b) Assets leased out under operating leases

During the year ended 31 December 2017, the Group leased out a piece of land, land use rights, certain buildings (classified as investment properties) and machineries located in the PRC and Peru under operating leases. The leases run for an initial period of one to three years with an option to renew the lease after the date at which time all terms are renegotiated. One of the lease includes contingent rentals ranged from RMB500,000 to RMB1,500,000 per annum (2016: RMB1,500,000 to RMB3,000,000 per annum), which depends on the annual sales volume of the lessee. RMB13,018,000 (2016: RMB10,802,000) of rentals were recognised by the Group for the year ended 31 December 2017.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	7,235	6,517

The Group's investment properties are accounted for using the cost model. The valuation for investment properties was arrived at by considering the income derived from the existing tenancies and the reversionary potential of the properties. The investment properties are specially designed for manufacturing of wooden flooring and are not able to exchange in an active market. Therefore, the fair value cannot be determined reliably and are not expected to be materially different from the carrying amounts as at 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 Intangible Assets

	Patents and trademark RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2016	14,930	11,376	26,306
Additions	170	1,163	1,333
Additions through acquisition of a subsidiary	—	85	85
Disposals	(538)	—	(538)
Disposal of a subsidiary	—	(77)	(77)
At 31 December 2016	14,562	12,547	27,109
At 1 January 2017	14,562	12,547	27,109
Additions	680	2,803	3,483
Disposals	—	(480)	(480)
At 31 December 2017	15,242	14,870	30,112
Accumulated amortisation:			
At 1 January 2016	6,370	3,668	10,038
Charge for the year	1,558	1,060	2,618
Disposals	(66)	—	(66)
Disposal of a subsidiary	—	(10)	(10)
At 31 December 2016	7,862	4,718	12,580
At 1 January 2017	7,862	4,718	12,580
Charge for the year	1,553	1,346	2,899
At 31 December 2017	9,415	6,064	15,479
Net book value:			
At 31 December 2017	5,827	8,806	14,633
At 31 December 2016	6,700	7,829	14,529

The amortisation charge of intangible assets for the year is included in "administrative expenses" in the consolidated statements of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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13 Lease Prepayments

	Land use rights RMB'000
Cost:	
At 1 January 2016	143,648
Additions through acquisition of a subsidiary	9,487
At 31 December 2016	153,135
At 1 January 2017	153,135
Additions	29,279
At 31 December 2017	182,414
Accumulated amortisation:	
At 1 January 2016	6,529
Amortisation for the year	2,057
At 31 December 2016	8,586
At 1 January 2017	8,586
Amortisation for the year	2,880
At 31 December 2017	11,466
Net book value:	
At 31 December 2017	170,948
At 31 December 2016	144,549

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2017, the remaining period of the land use rights ranges from 30 to 49 years (2016: 31 to 48 years).

As at 31 December 2017, lease prepayments with net book value of RMB75,821,000 were pledged for bank loans (2016: RMB75,225,000) (note 23 (ii)).

The amortisation charge of lease prepayments for the year is included in "cost of sales" and "administrative expenses" in the consolidated statements of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in Subsidiaries

(a) List of subsidiaries

The following list contains only the particulars of major subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
China Wood Flooring Holding Company Limited	BVI	United States Dollars ("USD") USD2	100%	100%	—	Investment holding
Eastpro Holdings Limited	BVI	USD1	100%	100%	—	Investment holding
Victory Land Holdings Limited	BVI	USD1	100%	100%	—	Investment holding
Guangdong Yingran Wood Industry Co., Ltd. 廣東盈然木業有限公司 (i) (iii)	the PRC	USD9,000,000	100%	—	100%	Wood flooring manufacturing
Nature (Zhongshan) Wood Industry Co., Ltd. 中山市大自然木業 有限公司 (i) (iii)	the PRC	USD7,650,000	100%	—	100%	Wood flooring manufacturing
Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. 昆山盈意大自然木業 有限公司 (i) (iii)	the PRC	USD9,600,000	100%	—	100%	Wood flooring manufacturing
Taizhou Nature Home Co., Ltd. 泰州大自然家居 有限公司 (i) (iii)	the PRC	USD20,000,000	100%	—	100%	Wood flooring manufacturing
Jiangxi Yingran Wood Industry Co., Ltd. 江西盈然地板有限公司 (i) (iii)	the PRC	USD10,000,000	100%	—	100%	Wood flooring manufacturing

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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14 Investments in Subsidiaries (Continued)

(a) List of subsidiaries (Continued)

Name of company	Place of incorporation/ establishment/ and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Hailin Taifeng Nature Wood Company Limited ("Hailin Taifeng") 海林泰豐大自然(木業) 有限責任公司(ii)(iii)	the PRC	RMB35,448,200	97.32%	—	97.32%	Wood flooring manufacturing
Henan Hengda Nature Home Company Limited 河南恒大大自然家居 有限公司(ii)(iii)	the PRC	RMB100,000,000	60%	—	60%	Wood flooring manufacturing
Guangxi Baijing Flooring Co., Ltd. 廣西柏景地板有限公司(i)(iii)	the PRC	RMB13,800,000	100%	—	100%	Wood flooring manufacturing
Zhongshan Nature Gerui New Materials Company Limited 中山市大自然格瑞新型 材料有限公司(i)(iii)	the PRC	RMB5,000,000	95%	—	95%	WPC flooring manufacturing
Jiang Xi Nature Home Co., Ltd. 江西省大自然家居 有限公司(i)(iii)	the PRC	USD200,000	100%	—	100%	Trading of flooring products
Nature Home (China) Co., Ltd. 大自然家居(中國) 有限公司(i)(iii)	the PRC	RMB50,000,000	100%	—	100%	Trading of flooring products
Nature Desenberg (Taizhou) Wood Industry Co., Ltd. 泰州大自然德森堡木業 有限公司(i)(iii)	the PRC	USD12,000,000	100%	—	100%	Wood doors manufacturing

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in Subsidiaries (Continued)

(a) List of subsidiaries (Continued)

Name of company	Place of incorporation/ establishment/ and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Guangxi Nature Bigao Gaoxin Decoration Material Company Limited 廣西大自然壁高高新 裝飾材料有限公司 (i) (iii)	the PRC	RMB42,300,000	100%	—	100%	Wall paper manufacturing
Zhongshan Yingde Nature Home Co., Ltd. 中山盈德大自然家居 有限公司 (i) (iii)	the PRC	USD5,000,000	100%	—	100%	Wardrobe and cabinet manufacturing
Foshan Shunde Nature Investment Management Co., Ltd 佛山市順德區大自然 投資管理有限公司 (ii) (iii)	the PRC	RMB50,000,000	50%	—	50%	Investment holding
Foshan Nature Zhihuijia Technology Company limited 佛山市大自然智慧家 科技有限公司 (ii) (iii)	the PRC	RMB1,000,000	70%	—	70%	Trading of home decoration products
Mico Incorporation Limited 民廣有限公司	Macau	USD4,000,000	65%	—	65%	Investment holding and trading of flooring products
Ever Sharp Industrial Limited 國耀實業有限公司	Hong Kong	HKD100	100%	—	100%	Trading of flooring products
Nature Wood (Peru) S.A.C.	Peru	PEN500,000	100%	—	100%	Trading of flooring products and earning rental income

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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14 Investments in Subsidiaries (Continued)

(a) List of subsidiaries (Continued)

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Contrato De Compra Venta De Peruvian Flooring S.A.C.	Peru	PEN10,000	100%	—	100%	Trading of flooring products and earning rental income
Nature Flooring Industries Inc.	USA	USD10,000	100%	—	100%	Trading of flooring products
Homefloor Max Inc.	USA	USD4,000,000	65%	—	65%	Trading of flooring products
Nature US Corporation	USA	USD8,000,000	65%	—	65%	Trading of wardrobe and cabinet

(i) These are wholly foreign-owned enterprises in the PRC.

(ii) These are limited liability companies in the PRC.

(iii) The official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

The directors consider that no individual non-controlling interest is material to the Group as at 31 December 2017 or 2016.

(b) Acquisition of a subsidiary

During the year ended 31 December 2017, the Group acquired 97.32% of the equity interests in Hailin Taifeng, which is principally engaged in manufacturing and sale of engineered flooring in the PRC, for a consideration of RMB32,130,000.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 Investments in Subsidiaries (Continued)

(b) Acquisition of a subsidiary (Continued)

The acquisition of the subsidiary had the following effect on the Group's assets and liabilities upon the date of acquisition:

	Note	Pre-acquisition carrying amount and recognised
Property, plant and equipment	11	21,450
Inventories		12,765
Deposits, prepayments and other receivables		1,231
Cash and cash equivalents		5,117
Trade and bills payables		(5,767)
Deposits received, accruals and other payables		(1,781)
Net identifiable assets		33,015
Share of net identifiable assets		97.32%
Total consideration		(32,130)
Analysis of the net cash outflow in respect of the acquisition of the subsidiary		
Total consideration		(32,130)
Cash and cash equivalents of the subsidiary acquired		5,117
Net cash outflow		(27,013)

The above subsidiary contributed a revenue of RMB17,672,000 and net profit attributable to the equity shareholders of RMB2,279,000 for the year ended 31 December 2017. Should the acquisition have occurred on 1 January 2017, the consolidated revenue of Company for the year ended 31 December 2017 and the consolidated profit attributable to the equity shareholders would have been RMB2,552,672,000 and RMB65,750,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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15 Other Financial Assets

	2017 RMB'000	2016 RMB'000
Available for sales financial assets		
— Unlisted	28,274	23,579
— Listed	47,102	62,130
	75,376	85,709

Available for sale equity securities:

	Equity securities			
	Listed		Unlisted RMB'000	Total RMB'000
	In China RMB'000	In Germany RMB'000		
Balance at 1 January 2016	46,277	33,414	10,604	90,295
Exchange adjustments	—	1,053	—	1,053
Additions	—	—	14,830	14,830
Changes in fair value recognised				
— in other comprehensive income (note 10)	(1,958)	—	—	(1,958)
— in profit or loss	—	(9,267)	—	(9,267)
Impairment recognised directly in profit or loss (note 4(b))	—	—	(1,855)	(1,855)
Disposals				
— cost	—	(13,212)	—	(13,212)
— fair value released (note 4(b))	—	5,823	—	5,823
Balance at 31 December 2016	44,319	17,811	23,579	85,709
Balance at 1 January 2017	44,319	17,811	23,579	85,709
Exchange adjustments	—	809	—	809
Additions (a)	—	—	10,995	10,995
Change in fair value recognised in other comprehensive income (note 10)	2,783	—	—	2,783
Impairment recognised directly in profit or loss (note 4(b))	—	(18,620)	(3,538)	(22,158)
Disposals	—	—	(2,762)	(2,762)
Balance at 31 December 2017	47,102	—	28,274	75,376

The accounting policy for available-for-sale equity securities is described in note 1(f).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 Other Financial Assets (Continued)

(a) Additions

During the year ended 31 December 2017, the Group increased the equity investment in five entities by RMB10,995,000. These entities mainly run advisory service on internet information and E-commerce system, O2O online sales of home decoration and trading service of decoration materials.

16 Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	38,201	43,579
Work in progress	53,337	40,020
Finished goods	280,914	291,360
Spare parts and consumables	16,637	29,118
	389,089	404,077

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	1,724,298	1,602,297
Write down of inventories	44,174	62,193
	1,768,472	1,664,490

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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17 Trade and Bills Receivables

	2017 RMB'000	2016 RMB'000
Trade debtors	1,116,787	993,411
Bills receivables	162,407	169,637
Less: allowance for doubtful debts (note 17(b))	(98,806)	(71,736)
	1,180,388	1,091,312

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

Note: As at 31 December 2017, trade debtors of RMB451,309,000 (2016: RMB229,500,000) and bills receivables of RMB30,000,000 (2016: RMB30,000,000) were pledged to a bank to secure banking facilities obtained by the Group (note 23(ii)).

(a) Ageing analysis

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

	2017 RMB'000	2016 RMB'000
Within 1 month	266,972	299,901
1 to 3 months	488,758	283,354
3 to 6 months	235,237	386,163
6 to 12 months	42,323	40,401
More than 12 months	147,098	81,493
	1,180,388	1,091,312

Trade debtors and bills receivables are due within 30 to 365 days from the date of billing. Further details on the Group's credit policy are set out in note 28(a).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

17 Trade and Bills Receivables (Continued)

(b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly (note 1(l)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2017 RMB'000	2016 RMB'000
Balance at 1 January	71,736	34,649
Impairment loss	43,846	45,408
Reversal of impairment loss	(15,203)	(6,180)
Uncollectible amounts written off	(1,573)	(2,141)
Balance at 31 December	98,806	71,736

As at 31 December 2017, the Group's trade receivables of RMB122,937,000 (2016: RMB122,428,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB98,806,000 as at 31 December 2017 were recognised (2016: RMB71,736,000).

(c) Trade debtors and bills receivables that are not impaired

The ageing analysis of trade debtors and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	881,970	816,295
Less than 3 months past due	73,051	100,169
More than 3 months but less than 12 months past due	121,820	90,801
More than 12 months past due	79,416	33,355
	1,156,257	1,040,620

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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18 Deposits, Derivatives, Prepayments and Other Receivables

	2017 RMB'000	2016 RMB'000
Other derivative financial instruments		
— share option	—	2,121
Deposits	17,098	16,636
Prepayments for purchase of raw materials	84,621	65,332
Prepayments for purchase of plant and equipment	18,841	26,768
Lease prepayments	2,570	4,950
Value added tax deductible	16,672	9,567
Other prepayments and receivables	131,004	77,249
Interest receivables	5,867	2,035
	276,673	204,658

An analysis of current and non-current portion of deposits, prepayments and other receivables is as follows:

	2017 RMB'000	2016 RMB'000
Non-current	21,411	33,839
Current	255,262	170,819
	276,673	204,658

All of the other derivative financial instruments, deposits, prepayments and other receivables, apart from those classified as non-current portion, and certain deposits RMB14,607,000 (2016:RMB10,581,000), are expected to be recovered or recognised as expense within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 Restricted Deposits

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

	2017 RMB'000	2016 RMB'000
Bank loans (note 23(ii))	116,000	165,000
Others	125,921	91,311
	241,921	256,311

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

20 Cash and Cash Equivalents and Other Cash Flow Information

(a) *Cash and cash equivalents complies:*

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	749,862	618,703

At 31 December 2017, cash and cash equivalents placed with banks in the PRC amounted to RMB703,004,000 (2016: RMB524,779,000). Remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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20 Cash and Cash Equivalents and Other Cash Flow Information (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

		2017 RMB'000	2016 RMB'000
Profit before taxation		136,667	59,190
Adjustments for:			
Depreciation	11(a)	78,680	67,741
Amortisation of intangible assets	12	2,899	2,618
Amortisation of lease prepayments in respect of land use rights	13	2,880	2,057
Net finance costs	5(a)	6,661	7,246
Net loss on disposal of property, plant and equipment	4(b)	3,331	5,984
Available-for-sale securities:			
— on impairment	4(b)	22,158	15,253
— on disposal	4(b)	—	5,823
Impairment losses of interest in associates	4(b)	375	—
Net (gain)/loss on disposal of subsidiaries	4	(2,433)	9,765
Change in fair value of financial assets at fair value through profit or loss	4	20,273	(418)
Change in fair value of derivative financial instrument	4	2,057	(2,121)
Equity settled share-based payment transactions	5(b)	9,841	8,747
Changes in working capital:			
Decrease in inventories		27,753	92,677
Increase in trade and bills receivables		(127,797)	(291,123)
(Increase)/decrease in deposits, derivatives, prepayments and other receivables		(71,675)	3,175
Increase in trade and bills payables		1,603	310,693
Increase in deposits received, accruals and other payables		75,201	53,954
Cash generated from operations		188,474	351,261

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

20 Cash and Cash Equivalents and Other Cash Flow Information (Continued)*(c) Reconciliation of liabilities arising from financing activities:*

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans RMB'000
At 1 January 2017	673,570
Changes from financing cash flows:	
Proceeds from new bank loans	547,968
Repayment of bank loans	(421,221)
Other borrowing costs paid	(29,476)
Total changes from financing cash flows	97,271
Changes from operating and investing cash flows:	
Net payment for letter of credit	(16,641)
Capitalised interest paid	(5,574)
Total changes from operating and investing cash flows	(22,215)
Exchange adjustments	(14,415)
Other changes:	
Interest expenses (note 5(a))	29,476
Capitalised borrowing costs (note 5(a))	5,574
Total other changes	35,050
At 31 December 2017	769,261

Note: Bank loans are disclosed in notes 23.

(d) Significant investing and financing activities not requiring the use of cash

During the year ended 31 December 2017, one subsidiary of the Company acquired convertible notes and warrant issued by an entity in transfer of trade receivables due from the entity of RMB12,718,000 and cash consideration of RMB7,850,000 (note 4(b)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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21 Trade and Bills Payables

	2017 RMB'000	2016 RMB'000
Trade creditors	408,264	372,002
Bills payables	200,900	213,150
	609,164	585,152

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

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

	2017 RMB'000	2016 RMB'000
Within 1 month	241,068	233,695
1 to 3 months	150,395	128,472
3 to 6 months	157,676	143,076
6 to 12 months	20,771	53,482
Above 1 year	39,254	26,427
	609,164	585,152

22 Deposits Received, Accruals and Other Payables

	2017 RMB'000	2016 RMB'000
Payables for purchase of property, plant and equipment	20,010	20,664
Advanced payments and deposits received from customers	118,589	116,201
Accrued staff costs	48,327	42,993
Value added tax, business tax and consumption tax payable	26,600	18,748
Accrued transportation fees	23,957	20,418
Other payables and accruals	147,101	94,101
	384,584	313,125

All of the deposits received, accruals and other payables are expected to be settled within one year or are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

23 Bank Loans

At 31 December 2017, the bank loans were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year or on demand	665,361	585,060
After 1 year but within 2 years	—	19,500
After 2 years but within 5 years	103,900	—
After 5 years	—	69,010
	103,900	88,510
	769,261	673,570

At 31 December 2017, the bank loans were secured as follows:

	2017 RMB'000	2016 RMB'000
Secured	712,595	545,931
Unsecured	56,666	127,639
	769,261	673,570

(i) At 31 December 2017, the Group has secured loans and borrowings amounting to approximately RMB712,595,000 (31 December 2016: RMB545,931,000), of which:

- approximately RMB123,400,000 (31 December 2016: RMB69,500,000) of these secured loans were secured by assets of the Group and guaranteed by the third parties on the joint and several guarantee;
- approximately RMB589,195,000 (31 December 2016: RMB452,421,000) of the Group (the "collateral loans") were solely secured by assets of the Group;
- no loans or borrowings (31 December 2016: RMB24,010,000) were solely guaranteed by the third parties on the joint and several guarantee.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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23 Bank Loans (Continued)

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

	2017 RMB'000	2016 RMB'000
Restricted deposits (note 19)	116,000	165,000
Other property, plant and equipment (note 11)	149,008	148,200
Investment properties (note 11)	—	5,590
Lease prepayments (note 13)	75,821	75,225
Trade and bills receivables (note 17)	481,309	259,500
	822,138	653,515

- (iii) Parts of the Group's banking facilities, amounted to RMB610,502,000 (31 December 2016: RMB709,400,000) are subject to the fulfilment of covenants relating to certain of the subsidiaries' balance sheet ratios, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). At 31 December 2017 and 31 December 2016, none of the covenants relating to drawn down facilities had been breached.
- (iv) The unutilised banking facilities as at 31 December 2017 amounted to RMB281,717,000 (31 December 2016: RMB161,098,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Equity Settled Share-based Transactions

(a) Share Option Schemes

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

Plans	Date of grant	Batch	Numbers of options granted	Vesting period	Exercise price (HKD)	Contractual life of options	Remaining contractual life
Options granted to employees:							
Pre-IPO Plan	17 December 2008	Batch 1	2,512,301	17 December 2008 to 30 December 2008	2.35	10 years	0.96 years
	17 December 2008	Batch 2	2,512,301	17 December 2008 to 30 December 2009	2.35	10 years	0.96 years
	17 December 2008	Batch 3	5,024,602	17 December 2008 to 30 December 2011	2.35	10 years	0.96 years
	17 December 2008	Batch 4	7,536,903	17 December 2008 to 30 December 2012	2.35	10 years	0.96 years
	17 December 2008	Batch 5	7,536,903	17 December 2008 to 30 December 2013	2.35	10 years	0.96 years
	1 July 2010	Batch 6	1,200,000	1 July 2010 to 30 December 2010	3.38	10 years	2.5 years
	1 July 2010	Batch 7	3,600,000	1 July 2010 to 30 December 2011	3.38	10 years	2.5 years
	1 July 2010	Batch 8	3,600,000	1 July 2010 to 30 December 2012	3.38	10 years	2.5 years
	1 July 2010	Batch 9	3,600,000	1 July 2010 to 30 December 2013	3.38	10 years	2.5 years
Post-IPO Plan	4 January 2012	Batch 10	58,000,000	4 January 2012 to 4 January 2015	1.45	10 years	4.02 years
	8 October 2013	Batch 11	31,500,000	8 October 2013 to 8 October 2016	1.61	10 years	5.78 years
Options granted to directors:							
Post-IPO Plan	4 January 2012	Batch 10	10,000,000	4 January 2012 to 4 January 2015	1.45	10 years	4.02 years
			Total	136,623,010			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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24 Equity Settled Share-based Transactions (Continued)

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

	2017		2016	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	1.79	111,811	1.78	116,157
Forfeited during the year	1.88	(5,351)	1.67	(4,346)
Outstanding at the end of the year	1.78	106,460	1.79	111,811
Exercisable at the end of the year	1.78	106,460	1.79	111,811

The share options outstanding at 31 December 2017 and 2016 had an exercise price of HK\$2.35, HK\$3.38, HK\$1.45 or HK\$1.61 and a weighted-average remaining contractual life of 3.7 years (31 December 2016: 4.7 years). No options were exercised during the year ended 31 December 2017 (2016: Nil).

The Group recognised nil share option expenses during the year ended 31 December 2017 (2016: RMB1,171,000) in respect of cost of services received.

During the year ended 31 December 2017, the Group reversed RMB2,912,000 (2016: RMB998,000) in respect of forfeited share options from several resigned staffs.

(b) Share Award Scheme

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 Equity Settled Share-Based Transactions (Continued)

(b) Share Award Scheme (Continued)

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

Subject to any early termination as may be determined by the board of directors, the Share Award Scheme shall be valid and effective for a term of 4 years commencing on 25 April 2016.

(i) Details of the shares held under the Share Award Scheme are set out below:

	Average purchase price	No. of shares held	Value of shares	
	HKD		'000	HKD'000
Shares held for the Share Award Scheme as at 31 December 2016	1.26	29,000	36,540	31,269
Forfeited during the year	1.26	(2,210)	(2,785)	(2,382)
Shares held for the Share Award Scheme as at 31 December 2017	1.26	26,790	33,755	28,887

(ii) On 25 April 2016, the Company granted 29,000,000 Award Shares to 25 selected employees, including 2 directors of the Company, under the Share Award Scheme. Details are as follows:

Date of grant	Vesting date	Number of Awarded Shares		
		granted	forfeited	unvested
		'000	'000	'000
25 April 2016	31 March 2018	14,500	(1,105)	13,395
25 April 2016	31 March 2019	14,500	(1,105)	13,395
		29,000	(2,210)	26,790

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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24 Equity Settled Share-Based Transactions (Continued)*(b) Share Award Scheme (Continued)*

The Group recognised share award expenses of RMB9,841,000 during the year ended 31 December 2017 (2016: RMB7,576,000) with a corresponding increase in a capital reserve within equity in accordance with below accounting policy adopted for share-based payments.

Own equity instruments which are reacquired (shares held under the Share Award Scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

The fair value of award shares granted to employees is recognised as an employee cost with a corresponding increase in other reserves within equity. The fair value is measured at the share price of the Company on the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the award shares, the total estimated fair value of the award shares is spread over the vesting period, taking into account the probability that the award shares will vest.

During the vesting period, the number of award shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to other reserves. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of award shares that vest (with a corresponding adjustment to other reserves) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in other reserves until either the award shares are exercised (when it is transferred to the share premium account) or the award shares expire (when it is released directly to retained profits).

At 31 December 2017, 26,790,000 ordinary shares (2016: 29,000,000 shares) were held by the trustee under the Share Award Scheme and 2,210,000 ordinary shares (2016: Nil), which were forfeited during the reporting period, were held by the trustee as other treasury shares on behalf of the Company.

25 Income Tax in the Consolidated Statement of Financial Position*(a) Current taxation in the consolidated statement of financial position represents:*

	2017 RMB'000	2016 RMB'000
At 1 January	24,536	11,106
Provision for PRC income tax (note 6(a))	63,843	58,992
Provision for income tax from subsidiaries in other jurisdictions (note 6(a))	—	402
Under-provision in respect of prior years	596	2,753
PRC income tax paid	(66,201)	(48,610)
Income tax paid by subsidiaries in other jurisdictions	(139)	(107)
At 31 December	22,635	24,536

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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25 Income Tax in the Consolidated Statement of Financial Position (Continued)

(c) Reconciliation to the consolidated statement of financial position

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised on the consolidated statement of financial position	30,490	24,505
Net deferred tax liabilities recognised on the consolidated statement of financial position	(35,203)	(9,760)
	(4,713)	14,745

(d) Deferred tax assets not recognised

No deferred tax assets have been recognised in respect of unused tax losses from certain subsidiaries as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. All of the tax losses, apart from those in the PRC and Peru, which have expiration periods of 5 years and 4 years respectively, do not expire under current tax legislation. As at the end of the reporting period, unused tax losses that:

	2017 RMB'000	2016 RMB'000
Expire by		
31 December 2017	—	638
31 December 2018	53	53
31 December 2019	7,060	7,060
31 December 2020	49,498	49,498
31 December 2021	22,038	19,872
31 December 2022	36,304	—
Sub-total	114,953	77,121
Unexpired under current tax legislation	255,037	197,310
Total	369,990	274,431

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

25 Income Tax in the Consolidated Statement of Financial Position (Continued)*(e) Deferred tax liabilities not recognised*

The directors planned to distribute the retained profit of the year ended 31 December 2017 (the “proposed dividend”) of certain PRC subsidiaries in the aggregate amount of RMB250,000,000 during the year ending 31 December 2018. Withholding tax of RMB25,000,000 (2016: Nil) was recognised in deferred taxation in respect of the proposed dividend.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that except for the proposed dividend mentioned above, the remaining undistributed profits of the Group’s PRC subsidiaries will not be distributed in the foreseeable future. No further deferred tax liabilities were recognised as at 31 December 2017.

The amounts of remaining undistributed profit of the Company’s subsidiaries are set out below:

	2017 RMB’000	2016 RMB’000
Distributable profits earned by PRC subsidiaries on or after 1 January 2008	1,218,854	1,216,519

As all of the Company’s PRC subsidiaries are directly or indirectly owned by a Hong Kong or Macau incorporated subsidiary which is not a qualified tax resident, a rate of 10% is applicable to the PRC dividend withholding tax. Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 6.8%.

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26 Share Capital

(a) *Authorised*

	As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	
	Number of shares	Nominal value of shares USD'000
Ordinary shares of USD0.001 each	4,000,000,000	4,000

(b) *Issued and fully paid*

	Ordinary shares		
	Number of ordinary shares	Nominal value of fully paid ordinary shares USD'000	Nominal value of fully paid ordinary shares RMB'000
As at 31 December 2016, 1 January 2017 and 31 December 2017	1,468,237,990	1,468	9,596

When shares recognised as equity are repurchased and cancelled, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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27 Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements 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:

	Share capital	Share premium	Share held for the Share Award Scheme	Other treasury Shares	Capital redemption reserve	Exchange reserve	Other reserves	(Accumulated loss)/retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 27(d))	(Note 24(b)(i))	(Note 24(b)(i))	(Note 27(e))	(Note 27 (b))			
At 31 December 2016 and 1 January 2017	9,596	960,406	(31,269)	—	84	40,172	393,686	28,054	1,400,729
Changes in equity for the year ended 31 December 2017									
Loss for the year	—	—	—	—	—	—	—	(31,497)	(31,497)
Available for sales securities disposal: transfer to profit or loss	—	—	—	—	—	(86,246)	—	—	(86,246)
Total comprehensive income	—	—	—	—	—	(86,246)	—	(31,497)	(117,743)
Deregistration of subsidiaries acquired under common control	—	—	—	—	—	—	(4,545)	—	(4,545)
Share options forfeited during the year (note 24(a))	—	—	—	—	—	—	(2,912)	2,912	—
Shares transferred to other treasury shares upon forfeiture (note 24(b))	—	—	2,382	(2,382)	—	—	—	—	—
Equity settled Share Award Scheme (note 24(b))	—	—	—	—	—	—	9,841	—	9,841
At 31 December 2017	9,596	960,406	(28,887)	(2,382)	84	(46,074)	396,070	(531)	1,288,282

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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27 Reserves (Continued)

	Share capital	Share premium	Share held for the Share Award Scheme	Fair value reserve	Capital redemption reserve	Exchange reserve	Other reserves	(Accumulated loss)/retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26)	(Note 27(d))	(Note 24(b)(i))	(Note 27(f))	(Note 27(e))	(Note 27 (b))			
At 31 December 2015 and 1 January 2016	9,596	1,110,296	—	(9,955)	84	(48,676)	385,937	(77,289)	1,369,993
Changes in equity for the year ended 31 December 2016									
Profit for the year	—	—	—	—	—	—	—	104,345	104,345
Available for sales securities disposal: transfer to profit or loss	—	—	—	9,955	—	—	—	—	9,955
Other comprehensive income	—	—	—	—	—	88,848	—	—	88,848
Total comprehensive income	—	—	—	9,955	—	88,848	—	104,345	203,148
Dividends approved in respect of the previous year (note 27(i))	—	(149,890)	—	—	—	—	—	—	(149,890)
Equity settled Share Option Schemes (note 24(a))	—	—	—	—	—	—	1,171	—	1,171
Share options forfeited during the year (note 24(a))	—	—	—	—	—	—	(998)	998	—
Equity settled Share Award Scheme (note 24(b))	—	—	—	—	—	—	7,576	—	7,576
Share purchased for the Share Award Scheme (note 24(b)(i))	—	—	(31,269)	—	—	—	—	—	(31,269)
At 31 December 2016	9,596	960,406	(31,269)	—	84	40,172	393,686	28,054	1,400,729

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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27 Reserves (Continued)*(a) Statutory surplus reserve*

- (i) According to the current PRC Company Law, the Group's subsidiaries established and operated in the PRC are required to transfer 10% of their profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by these entities.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

- (ii) The Macau Commercial Code requires that a company should set aside a minimum of 25% of the company's profit after taxation to the legal reserve until the balance of the reserve reaches 50% of the company's paid-in capital. The reserve can be utilised to offset accumulated losses, if any, and for capitalisation issue.
- (iii) The Peru Corporation Law requires that a company should set aside a minimum of 10% of the company's profit after taxation to the legal reserve until the balance equal to 20% of the paid-in capital. The reserve can be used to offset future net losses.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currencies other than the RMB presentation currency.

(c) Other reserves

The Group's other reserves comprise the following:

	2017 RMB'000	2016 RMB'000
Equity settled share-based transactions (i)	82,617	75,688
Capital contributions	596	596
Arising from reorganisation	99	99
	83,312	76,383

- (i) The equity settled share-based transactions represent the cumulative value of the equity settled share options granted to employees recognised in accordance with the accounting policy adopted for share-based payments in note 1(o)(ii).

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27 Reserves (Continued)

(d) *Share premium*

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the equity shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(e) *Capital redemption reserve*

Capital redemption reserve represents the nominal amount of the shares repurchased.

(f) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale listed equity securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 1(f).

(g) *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 and services 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.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bills payables and interest-bearing loans and borrowings), less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

27 Reserves (Continued)

(g) Capital management (continued)

The Group's adjusted net debt-to-capital ratio at 31 December 2017 and 2016 was as follows:

	Note	2017 RMB'000	2016 RMB'000
Current liabilities:			
Bills payables	21	200,900	213,150
Bank loans	23	665,361	585,060
		866,261	798,210
Non-current liabilities:			
Bank loans	23	103,900	88,510
Total debt		970,161	886,720
Less: Cash and cash equivalents	20	(749,862)	(618,703)
Restricted deposit	19	(241,921)	(256,311)
Adjusted net (assets)/debt		(21,622)	11,706
Adjusted capital		2,180,679	2,083,039
Adjusted net debt-to-capital ratio		Not applicable	0.6%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except that banking facilities granted to certain subsidiaries are subject to the fulfilment of covenants relating to the subsidiaries' balance sheet ratios (Note 23). The Group will actively and regularly monitor its compliance to such covenants.

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27 Reserves (Continued)*(h) Distributability of reserves*

The aggregate amount of reserves available for distribution to equity shareholders of the Company at 31 December 2017 was HKD1,549,000,000 (equivalent to RMB1,358,000,000) (2016: HKD1,574,000,000 (equivalent to RMB1,380,000,000)) which comprises of share premium, fair value reserve, (accumulated losses)/retained profits excluding net unrealised gains on derivative financial instrument (see note 4(a)) and other reserves.

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

	2017 RMB'000	2016 RMB'000
Nil special dividend declared and paid per ordinary share (2016: HK\$0.12)	—	150,762
Less: Dividends for treasury shares held by the Company	—	(872)
	—	149,890

* The Company paid a special dividend of RMB149,890,000 for the year ended 31 December 2016 as adjusted to exclude the dividend for treasury shares held under the Company's Share Award Scheme and other treasury shares held by the Company.

No final dividend has been proposed by the Company for the year ended 31 December 2017 (2016: Nil).

(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
Nil final dividend in respect of the previous financial year, approved and paid during the year (2016: Nil)	—	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate, currency risks and commodity price risk arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

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.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and available-for-sale financial assets. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 365 days from the date of billing. Debtors with balances that are more than 12 months past due are generally requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 34% (2016: 24%) and 38% (2016: 33%) of trade and bills receivables was due from the Group's largest customer and the five largest customers respectively.

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 bills receivables are set out in note 17.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)

(b) Liquidity risk (Continued)

The following tables show 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 date the Group can be required to pay:

	At 31 December 2017					Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Bank loans	684,214	6,462	122,931	—	813,607	769,261
Trade and bills payables	609,164	—	—	—	609,164	609,164
Deposits received, accruals and other payables	384,584	—	—	—	384,584	384,584
	1,677,962	6,462	122,931	—	1,807,355	1,763,009

	At 31 December 2016					Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Bank loans	605,817	24,049	12,963	73,094	715,923	673,570
Trade and bills payables	585,152	—	—	—	585,152	585,152
Deposits received, accruals and other payables	313,125	—	—	—	313,125	313,125
	1,504,094	24,049	12,963	73,094	1,614,200	1,571,847

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 Financial Risk Management and Fair Values (Continued)**(c) Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Bank loans issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

	2017		2016	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	4.23%	305,452	3.84%	320,550
Fixed rate instruments				
Bank loans	5.48%	463,809	4.96%	353,020
Total borrowings		769,261		673,570
Fixed rate borrowings as a percentage of total borrowings		60%		52%

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates in bank loans, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits year by RMB2,746,000 (2016: decreased/increased of net loss by RMB3,144,000) respectively.

The sensitivity analysis indicates the impact on the Group's profit after tax and retained profits and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the entity to which the transactions relate. The currencies giving rise to this risk are primarily RMB, USD, MOP, PEN, EUR and GBP. 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 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 rate 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.

	Exposure to foreign currencies							
	31 December 2017				31 December 2016			
	USD RMB'000	PEN RMB'000	EUR RMB'000	RMB RMB'000	USD RMB'000	PEN RMB'000	EUR RMB'000	RMB RMB'000
Cash and cash equivalents	13,526	574	20,895	4,999	35,434	3,782	11,917	7,173
Trade and bills receivables	30,430	80,927	8,544	—	30,557	81,189	1,154	—
Deposits, prepayments and other receivables	137	12,340	1,841	—	6,132	17,204	314	30
Trade and bills payables	(11,807)	(1,274)	(50,317)	—	(9,899)	(4,130)	(45,711)	(14)
Deposits received, accruals and other payables	—	(1,600)	—	—	(1,602)	(1,547)	—	—
Bank loans	—	—	(22,767)	—	—	—	(33,239)	(500)
Gross exposure arising from recognised assets and liabilities	32,286	90,967	(41,804)	4,999	60,622	96,498	(65,565)	6,689

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 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, in particular interest rates, remain constant.

	31 December 2017			31 December 2016		
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on loss for the year RMB'000	Effect on other components of equity RMB'000
USD	1%	323	323	1%	607	607
USD	(1%)	(323)	(323)	(1%)	(607)	(607)
PEN	1%	910	910	1%	965	965
PEN	(1%)	(910)	(910)	(1%)	(965)	(965)
EUR	1%	(418)	(418)	1%	(659)	(659)
EUR	(1%)	418	418	(1%)	659	659
RMB	1%	50	50	1%	67	67
RMB	(1%)	(50)	(50)	(1%)	(67)	(67)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax for the year and equity measured in the respective functional currencies, translated into reporting currency (RMB) at the exchange rate 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 re-measure 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. The analysis is performed on the same basis for 2016.

(e) Commodity price risk

Various wood cores and timber are the major materials of the Group's products which accounted for 58% (2016: 49%) of total cost of sales. Fluctuation on commodity price of wood cores and timber will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimises the cost of materials by bulk purchase of major raw materials and acquisition of natural resources. The Group has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)

(f) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale listed equity securities (see note 15). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The Group's listed investments are listed on the National Equities Exchange and Quotations in the PRC and the Frankfurt Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2017, it is estimated that an increase/(decrease) of 20% (2016: 20%) in the relevant stock market index (for listed investments), the price/earnings ratios of comparable listed companies (for unquoted investments) or the Company's own share price (for the conversion option of certain convertible bonds) as applicable, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2017		2016		
		Effect on other components of equity \$'000		Effect on other components of equity \$'000	Effect on profit after tax and retained profits \$'000
Change in the relevant equity price risk variable:					
Increase	20%	7,065	20%	10,210	—
Decrease	(20%)	(7,065)	(20%)	(6,648)	(3,562)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)*(f) Equity price risk (Continued)*

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2016.

*(g) Fair value measurement***(i) Financial instruments carried at fair value****Fair value hierarchy**

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

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

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28 Financial Risk Management and Fair Values (Continued)

(g) Fair value measurement (Continued)

(i) Financial instruments carried at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into			Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements								
Assets:								
Available-for-sale equity securities:								
— Listed	47,102	47,102	—	—	62,130	62,130	—	—
— Unlisted	28,274	—	28,274	—	23,579	—	23,579	—
Derivative financial instruments:								
— Share call option	—	—	—	—	2,121	—	—	2,121

During the years ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)*(g) Fair value measurement (Continued)***(i) Financial instruments carried at fair value (Continued)****Valuation techniques and inputs used in Level 2 fair value measurements**

The fair value of available-for-sale financial assets are determined by discounting the expected future return using interest rates currently available for instruments with similar terms, credit risk and remaining terms.

The net unrealised gains arising from the remeasurement of the unlisted available-for-sale equity securities are recognised in fair value reserve in other comprehensive income.

Information about Level 3 fair value measurements

The fair value of derivative financial instruments — share option is determined using Black Sholes model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2017, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 1% would have decreased/increased the Group's profit by RMB nil (2016: RMB33,000).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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28 Financial Risk Management and Fair Values (Continued)

(g) Fair value measurement (Continued)

(i) Financial instruments carried at fair value (Continued)

Information about Level 3 fair value measurements (Continued)

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

	Share call option	Convertible notes	Warrants	Total
Balance as at 1 January and 1 July 2016	—	—	—	—
Changes in fair value recognised in profit or loss during the period (note 4(a))	2,121	—	—	2,121
At 31 December 2016 and 1 January 2017 (note 15)	2,121	—	—	2,121
Payment for purchases (note 4(b)(i))	—	15,603	4,965	20,568
Changes in fair value recognised in profit or loss during the period (note 4(b))	(2,057)	(15,380)	(4,893)	(22,330)
Effect of movements in exchange rate	(64)	(223)	(72)	(359)
At 31 December 2017	—	—	—	—
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period (note 4(b))	(2,057)	(15,380)	(4,893)	(22,330)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 Commitments and Contingent Liabilities*(a) Capital commitments*

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

	2017 RMB'000	2016 RMB'000
Contracted for	41,732	23,661

(b) Operating lease commitments

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

	2017 RMB'000	2016 RMB'000
Within 1 year	20,232	21,674
After 1 year but within 3 years	13,976	25,733
After 3 years but within 5 years	1,993	6,882
After 5 years	3,640	4,236
	39,841	58,525

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

(c) Contingent liabilities

There were two outstanding litigations commenced by a constructor and a service provider against certain subsidiaries of the Group claiming construction fee of RMB1,266,000 and service fee of RMB3,635,000, respectively. The subsidiaries continue to deny any liability in respect of the claims and based on the advice of the Group's legal counsels, the directors of the Group do not believe it probable that the courts will find against them. No provision has therefore been made in respect of these claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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30 Material Related Party Transactions*(a) Disposal of subsidiaries*

During the year ended 31 December 2017, the Group disposed three insignificant subsidiaries at a total cash consideration of RMB294,000 to Ample Connect Limited, which is a private company effectively owned as to 60.19% by Mr. Se Hok Pan and 39.81% as to Ms. Un Son I, both of whom are directors of the Company. At the disposal date, the net liabilities of these subsidiaries were RMB849,000 and a net disposal gain of RMB1,143,000 were recognised accordingly. The amount receivable from and payable to these then subsidiaries were RMB38,127,000 and RMB21,646,000 respectively as at 31 December 2017.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	9,170	9,763
Post-employment benefits	24	27
Equity settled share-based payment expenses	1,557	1,067
	10,751	10,857

Total remuneration is included in "staff costs" (note 5(b)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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31 Company-level Statement of Financial Position

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investments in subsidiaries		292,553	312,457
Available-for-sale listed equity securities		—	17,811
Other receivables		1,152,104	1,245,374
		1,444,657	1,575,642
Current asset			
Cash and cash equivalents		8,474	10,584
		8,474	10,584
Current liabilities			
Banks loans		158,823	178,900
Deposits received, accruals and other payables		6,026	6,597
		164,849	185,497
Net current liabilities		(156,375)	(174,913)
NET ASSETS		1,288,282	1,400,729
CAPITAL AND RESERVES			
Share capital	26	9,596	9,596
Reserves	27	1,278,686	1,391,133
TOTAL EQUITY		1,288,282	1,400,729

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32 Immediate and Ultimate Controlling Parties

At 31 December 2017, the directors consider the immediate parent of the Group to be Freewings Development Co., Ltd., which is incorporated in BVI. This entity does not produce financial statements available for public use. The ultimate controlling parties are Mr. Se Hok Pan and Ms. Un Son I.

33 Possible Impact of Amendments, New 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 few 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
IFRS 9, <i>Financial instruments</i>	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to IFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to IAS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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33 Possible Impact of Amendments, New 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) as follows:

- 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 effective interest, 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 and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

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33 Possible Impact of Amendments, New 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)

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to IFRS 9. The Group plans to elect this designation option for the investments held on 1 January 2018 and will recognise any gains, losses and impairments, except for dividend income, in respect of these investments in other comprehensive income without recycling as they arise. This will give rise to changes in accounting policy as follows:

- the Group recycled the gain and loss on disposal or impairment of listed available-for-sale equity investments from other comprehensive income to profit or loss, in accordance with the Group's policies set out in notes 1(f) and 1(l). This change in policy will have no impact on the Group's net assets and total comprehensive income. Upon the initial adoption of IFRS 9, impairment losses of RMB32,018,000 related to the listed available-for-sale investments will be retrospectively transferred from the retained profits to fair value reserve at 1 January 2018; and
- the Group measured the unlisted available-for-sale investments at cost less impairment losses, in accordance with the Group's policies set out in notes 1(f) and 1(l). The Group has assessed that this changes is not likely to have significant impact on the value of the unlisted available-for-sale investments, as the fair values were assessed to be similar to the book value of these investments as at 31 December 2017.

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 own 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 may 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, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase by approximately 9% as compared with that recognised under IAS 39. As a consequence, an adjustment of approximately RMB6,684,000 will be made to the opening balances of net assets and retained profits at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2017 (Continued)*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 preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 1(r). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

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:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) 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;
- (c) 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 has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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33 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2017 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers. The Group has assessed that this component in the Group's advance payment schemes is not likely to be significant to the contract.

(c) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return.

However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

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. Since the number of "open" contracts for sales of electronic products and properties at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2017 (Continued)*IFRS 16, Leases*

As disclosed in note 1(u), 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 29(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB39,841,000, part of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

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33 Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2017 (Continued)*IFRS 16, Leases (Continued)*

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 not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

FIVE YEARS SUMMARY

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Results					
Turnover	2,550,646	2,315,651	2,012,092	1,979,285	1,488,949
Net change in fair value of biological assets	—	—	(225,928)	(144,349)	47,761
Profit/(loss) from operations	143,328	66,436	(186,347)	(19,840)	210,619
Net finance costs	(6,661)	(7,246)	(62,022)	(19,636)	(53)
Profit/(loss) before taxation	136,667	59,190	(248,369)	(39,476)	210,566
Income tax	(83,201)	(57,368)	(20,898)	(33,766)	(70,435)
Profit/(loss) for the year	53,466	1,822	(269,267)	(73,242)	140,131
Attributable to:					
Equity shareholders of the Company	68,182	38,280	(267,742)	(75,356)	138,102
Non-controlling interests	(14,716)	(36,458)	(1,525)	2,114	2,029
Profit/(loss) for the year	53,466	1,822	(269,267)	(73,242)	140,131
Assets and liabilities					
Non-current assets	1,185,004	1,147,960	1,151,335	1,319,377	1,208,738
Current assets	2,816,522	2,541,222	2,193,677	2,068,648	1,778,726
Total assets	4,001,526	3,689,182	3,345,012	3,388,025	2,987,464
Current liabilities	(1,681,744)	(1,507,873)	(1,086,205)	(947,156)	(459,516)
Non-current liabilities	(139,103)	(98,270)	(46,094)	(21,186)	(14,421)
NET ASSETS	2,180,679	2,083,039	2,212,713	2,419,683	2,513,527
Share capital	9,596	9,596	9,596	9,596	9,680
Reserves	2,105,760	2,047,511	2,150,591	2,393,116	2,493,402
Non-controlling interests	65,323	25,932	52,526	16,971	10,445
TOTAL EQUITY	2,180,679	2,083,039	2,212,713	2,419,683	2,513,527
Earnings/(Loss) per share (Note)					
Basic	0.047	0.026	(0.18)	(0.05)	0.09
Diluted	0.047	0.026	(0.18)	(0.05)	0.09

Note:

For the years ended 31 December 2017, 2016, 2015, 2014 and 2013, the effect of the Company's share option plans were anti-dilutive.