DA SEN

Annual Report 2017

DA SEN HOLDINGS GROUP LIMITED

大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1580

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CONTENT PAGE

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

DEFINITIONS

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

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

BOARD

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

COMPANY SECRETARY

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. KE Mingcai
Mr. LAU Chung Wai

EXTERNAL AUDITOR

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

COMPLIANCE ADVISER

China Industrial Securities International Capital Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

Economic Development Zone
Sunsi Town, Chengwu
Shandong, Mainland China

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1580

COMPANY'S WEBSITE

http://www.msdscn.com

Dear Shareholders,

On behalf of the Group, I am pleased to present the annual report of the Group for the year ended 31 December 2017.

Over the past year, China Central People's Government has taken a number of measures in further protecting the environment. On one hand, it brings to us a better living environment. On the other hand, it has given challenges to participants of certain industries, in particular, the manufacturing industry. We notice that the cost of raw materials has increased during the past year accordingly, and it resulted in a reduced gross profit margin to our products.

Notwithstanding, we have taken some steps targeting for a better development of the Group's business. In addition to executing the business plan as stipulated in the Company's Prospectus, we have completed a share placing in November 2017 raising a capital fund of approximately HK$88.7 million for supporting our new plan to set up a new production facilities for the manufacture of plywood veneers. We hope that such vertical integration in our production cycle will help enhance the profitability as well as the efficiency of our production of plywood products. It will also help further stabilise the supply of materials for the plywood products production.

In the year 2017, we encountered a slight drop in the Group's profits in spite of the steady growth in the sales of our plywood products, which was mainly due to the increased production cost as mentioned above. It is perceived that the increased production cost may sustain in the near future and we are now putting more effort to expand our sales hoping to earn a better profits as well as enjoy the cost efficiency through economy of scale in the production cycle. We are also exploring other business opportunities for the Group, including but not limited to, launching new products and services in order to diversify our source of income to bring a better value to our Shareholders in the long run.

KE Mingcai
Chairman

29 March 2018

EXECUTIVE DIRECTORS

Mr. KE Mingcai (柯明財), aged 44, is the Chairman and executive Director. Mr. Ke joined the Group in December 2010 and is responsible for the overall planning and strategic development of the Group's business. Prior to joining the Group, Mr. Ke worked as a general manager in Fujian Jinjiang Qi Ren CPU Co. Ltd (福建省晉江市奇仁聚氨酯製品有限公司), a company engaging in the manufacturing of polyurethane soles, shoes and garment, from 30 August 2002 to 31 December 2011. He had been the president of Fujian Li Rong Trading Development Co. Ltd (福建省力榮商貿發展有限公司), a company engaging in the sale of garment and shoes, and the material of those, since 13 July 2005. Mr. Ke also has more than seven years of experience in the wood industry and more than 10 years in the trading industry.

Furthermore, Mr. Ke is currently a member of the 19th People's Congress of Heze City and the chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會). In July 2015, Mr. Ke obtained a diploma in finance and securities at the Dongbei University of Finance and Economics (東北財經大學) in Mainland China.

Mr. WANG Songmao (王松茂), aged 44, is the chief executive officer and executive Director. Mr. Wang joined the Group in December 2010 and is responsible for the general operations and formulating the policies for the Group. Mr. Wang has manufacturing experiences and management skills from his experience in the garment industry for over 11 years. Since 30 June 2005, he has been the president of Jiangsu Kunshan Long De Sheng Costume Co. Ltd (江蘇省昆山市隆德盛服飾有限公司), a company engaging in the manufacturing of plastic, plastic signage, paper signage, fabric signage, metal signage, wood product and the sale of wood products. He has also been the president of Bao Wei Automotive Technology (Jiangsu) Co. Ltd (寶瑋汽車科技 (江蘇) 有限公司), a company engaging in the development and sale of automobile and automobile components, since 3 December 2013.

Mr. Wang is currently a member of the 15th session of the Chinese People Political Consultative Conference of Chengwu County and the vice chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會).

Mr. ZHANG Ayang (張啊阳), aged 42, is the executive Director responsible for sales and marketing strategy and overseeing the sales of the Group. Mr. Zhang joined the Group in December 2010 as the head of sales department. Mr. Zhang was promoted as the general manager of Dasen (Heze) in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company (晉江市青陽信億建材商行), engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material.

Mr. WU Shican (吳仕燦), aged 44, is the executive Director responsible for the general operations and administrative management of the Group. Mr. Wu joined the Group in December 2010. From 1996 to 2000, Mr. Wu acted as legal representative of Xiamen Qi Li Furniture Development Company Limited (廈門市奇麗家具發展有限公司), which was engaged in the manufacturing and sales of furniture. Mr. Wu served as the chief executive officer of Guangzhou Baiyun Tai Chuan Garment Factory (廣州白雲區太川製衣廠), a company engaging in garment manufacturing from August 2010 to December 2012, and thus has acquired experience in the manufacturing industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIN Triomphe Zheng, aged 50, is an independent non-executive Director. Mr. Lin graduated from Xiamen University (廈門大學) in Mainland China in July 1987 with a bachelor of arts degree. Mr. Lin further obtained his bachelor of commerce from Macquarie University, Australia in September 1997, majoring in accounting and finance. In January 2000, Mr. Lin was conferred by the CPA Australia as a certified practising accountant. In December 2000, Mr. Lin was first appointed by the Attorney General of New South Wales as a Justice of the Peace (NSW).

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

Mr. SHAO Wanlei (邵萬雷), aged 50, is an independent non-executive Director. Mr. Shao obtained his LL.M. (法學碩士) degree from Nanjing University (南京大學) in Mainland China in June 1999 and his LL.M. degree from Georg-August-University of Göttingen, Germany in October 1997. Mr. Shao was admitted as a lawyer in China in 1994. Mr. Shao founded Shao Wanlei Law Office, a law firm in China, in October 2005. In May 2008, Mr. Shao established Luther Law Offices in Mainland China, and since then has served as a managing partner.

Mr. WANG Yuzhao (王玉昭), aged 47, is an independent non-executive Director. Mr. Wang obtained his Ph.D. in management studies from Northeast Forestry University (東北林業大學) in Mainland China in July 2008. From February 2011 to June 2014, Mr. Wang was engaged in postdoctoral research in applied economics in the Research Institute for Fiscal Science, Ministry of Finance, China (財政部財政科學研究所) while serving as a manager assistant in the safety and quality department of China Railway 16th Bureau (中鐵十六局). Mr. Wang has been a distinguished professor and mentor for graduate students at the Northeast Forestry University (東北林業大學) in Mainland China since June 2012 and Zhejiang Sci-Tech University (浙江理工大學) in Mainland China since January 2014.

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

SENIOR MANAGEMENT

Mr. LAU Chung Wai (劉仲緯), aged 35, has been the chief financial officer and company secretary of the Group since August 2015 and is responsible for overseeing the investment, legal and financial affairs of the Group. Mr. Lau has over 13 years of experience in accounting and finance, and is a fellow practising member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Lau was a manager of the assurance service team in Ernst & Young from September 2004 to September 2011, a finance manager in a media company which is a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (Stock code: PUB. PA), from September 2011 to April 2013, and a group financial controller of an enterprise engaging in the manufacturing of furniture and home decoration products in Mainland China from May 2013 to July 2015. Mr. Lau obtained his bachelor in business administration from the Hong Kong University of Science and Technology in 2004.

Mr. ZHANG Donghua (張東華), aged 52, is the deputy general manager responsible for overseeing the Group's production of plywood products. Mr. Zhang joined the Group in February 2014. Mr. Zhang obtained his bachelor in wood processing from the Forestry College of Jilin (吉林林學院) in Mainland China in July 1987 and was also conferred a certificate of graduation in April 1988 for attending the TQC Backbone Staff Training Course (TQC骨幹培訓班) organised by the Jilin Quality Control Society (吉林省質量管理協會) and the School of Management, Jilin University (吉林工業大學管理學院). Mr. Zhang qualified as an engineer in January 1997 by the China Jilin Forest Industry Group (中國吉林森林工業 (集團) 總公司). Mr. Zhang was also awarded the Certificate of Third Class Contribution (立功證三等功) by the Forestry Administration of Linjiang City (臨江林業局) in November 1994. In March 1996, Mr. Zhang was awarded the Prize of Idea for Technology (科技建議獎) by the Jilin Society of Forestry (吉林省林學會). Mr. Zhang was also qualified as an internal system quality auditor (質量體系內部審核員) by the Beijing Jiuqian Standard Quality System Accreditation Centre (北京九千標準質量體系認證中心) in June 2001. From June 1987 to May 1999, Mr. Zhang worked at the Wood Manufacturing Factory (later known as Artificial Board Company (人造板公司)) of Forestry Administration of Linjiang of China Jilin Forest Industry Group (吉林森工集團臨江林業局制材廠) with his last position as engineer.

Mr. ZHANG Cheng (張成), aged 49, is the deputy general manager, responsible for overseeing the Group's production of biomass wood pellets. Mr. Zhang joined the Group in September 2017. Mr. Zhang worked at Liaohe Oilfield Shenyang Oil Production Plant (遼河油田瀋陽採油廠) from January 1995 to October 1999 and his last position was deputy general manager. Mr. Zhang worked as deputy head of repair service at Liaohe Oilfield Underground Operation Company (遼河油田井下作業公司) from November 1999 to March 2003. Mr. Zhang worked at a technical consultant to certain factories in China from August 2003 to September 2017.

Ms. MA Xingmei (馬興梅), aged 46, is the finance manager responsible for financial affairs of the Group's operations in Mainland China. Ms. Ma joined the Group in December 2017. Ms. Ma obtained her diploma in accountancy from Northeast Normal University (東北師範大學) in 2016. Ms. Ma worked as a finance manager at Quanzhou Fangyuan Shoes Company Limited (泉州方圓鞋業有限公司) from January 2007 to December 2012, and worked as a finance manager at Fujian Zhongyuanjia Import & Export Trading Company Limited (福建中源佳進出口貿易有限公司) from January 2013 to November 2017.

BUSINESS REVIEW

Overview

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

The Group is strategically located in Heze City, Shandong Province in China for close access to the local abundant supply of poplars, being the Group's principal raw materials. The Group also fully utilises raw materials and automated production lines to control the production costs and maintain a high environmental protection standard. The Group's current management team emphasises stringent quality control in both plywood products and biomass wood pellets, raising the recognition among the customers continuously, making huge contribution to the business growth of the Group.

Plywood products

The Group's plywood products consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), which are mainly made of poplar. Customers usually use the Group's plywood products as materials for interior decoration or furniture making, and some customers trade the Group's plywood products to their downstream customers. Those three types of plywood products serve similar functions to customers of the Group and the main differences are on certain specifications, such as the level of moisture content, the hardness and the water resistance capability. The total revenue of the Group is mainly contributed by the sales of plywood products, which accounted for approximately 80.3% of the total revenue for the year ended 31 December 2017.

Given the strategic location of the production base of the Group in Heze City, Shandong Province in China, there have been abundant resources of poplars, which provides a solid supply bases for the Group's manufacture of plywood products on a sustainable basis.

Customers of the Group's plywood products are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and there are also some trading companies sourcing plywood products from the Group for on-selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located at Eastern China and Southern China regions. The Group maintains a large customer base for the plywood products and there were totally 114 customers of plywood products for the year ended 31 December 2017, out of which the five largest customers contributed for less than 35% of the total revenue of plywood products.

Biomass wood pellets

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

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

Customers of the Group's biomass wood pellets are mainly end users and there are only limited number of trading companies sourcing biomass wood pellets from the Group for on-selling to their downstream customers. Most customers of the Group's biomass wood pellets are located at Eastern China and Southern China regions. The Group maintains a diversified customer base for the biomass wood pellets and there were totally 83 customers of biomass wood pellets for the year ended 31 December 2017, out of which the five largest customers contributed for less than 30% of the total revenue of biomass wood pellets.

RECENT DEVELOPMENT

The Group had a number of construction in progress for production facilities as at 31 December 2017. There has been progress in the construction since 1 January 2018, and it is expected that most of the construction will be completed in the first half of the year 2018, and all necessary licenses and permits for operation of those new production facilities is also expected to be obtained at the same time.

OUTLOOK

The Central People's Government of China has recently taken a number of environmental measures against the pollution in Mainland China. Those measures have given challenges to the manufacturing industry in Mainland China due to the more stringent requirements on the manufacturing process, which results in a higher production cost for the manufacturing companies. It also has impact to the Group's suppliers as well, in particular the small suppliers of our plywood products. Consequently, the Group has a lower gross profit margin for the year ended 31 December 2017 for both plywood products and biomass wood pellets. Management of the Group expects that those environmental measures will sustain and the Group will face a similar level of pressure on the gross profit margins in the foreseeable future.

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

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2017, the Group had an overall steady growth in revenue of approximately 7.2%, from approximately RMB466.1 million for the year ended 31 December 2016 to approximately RMB499.6 million for the year ended 31 December 2017.

The Group's plywood products contributed to the revenue growth of the Group for the year ended 31 December 2017. Revenue arising from sales of plywood products increased from approximately RMB363.7 million for the year ended 31 December 2016 to approximately RMB401.2 million for the year ended 31 December 2017, representing a growth rate of approximately 10.3%. Such growth was mainly because of the increased number of purchase orders from the existing customers as well as securing some new customers during the year ended 31 December 2017.

The sales of the biomass wood pellets for the year ended 31 December 2017 maintained at a similar level as compared to the sales for the year ended 2016, changing from approximately RMB102.4 million for the year ended 31 December 2016 to approximately RMB98.4 million for the year ended 31 December 2017.

Gross profit

The overall gross profit margin of the Group dropped for the year ended 31 December 2017, changing from approximately 22.8% for the year ended 31 December 2016 to approximately 19.5% for the year ended 31 December 2017. The decrease in gross profit margin was mainly due to the higher production cost incurred as a result of more stringent environmental policies adopted by the Central People's Government of China and also higher purchase costs for raw materials during the year ended 31 December 2017.

Other income

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

Decrease in other income during the year ended 31 December 2017 was mainly due to less refund of value-added tax received during the year ended 31 December 2017. Since the Group incurred additional production cost during the year ended 31 December 2017, the gross profit margin for the biomass wood pellets dropped and accordingly, less value-added tax was paid for the production and sales of the biomass wood pellets, resulting in less refund of value-added tax received during the year ended 31 December 2017.

Selling and distribution expenses

There was an increase of approximately RMB0.7 million in selling and distribution expenses for the year ended 31 December 2017, changing from approximately RMB0.9 million for the year ended 31 December 2016 to approximately RMB1.6 million for the year ended 31 December 2017. Increase in the amount was mainly due to expenses incurred for the operation of the sale office newly set up in Fujian province of China during the year ended 31 December 2017.

Administrative expenses

There was a decrease of approximately RMB7.3 million in administrative expenses for the year ended 31 December 2017, decreasing from approximately RMB34.6 million for the year ended 31 December 2016 to approximately RMB27.3 million for the year ended 31 December 2017. Such decrease was mainly due to the net effects of the followings: (i) non-recurring listing expenses of approximately RMB13.2 million incurred during the year ended 31 December 2016 in relation to the initial public offering of the shares of the Company (the "IPO"); (ii) additional research and development expenses of approximately RMB3.9 million incurred during the year ended 31 December 2017 for supporting the product testing and modifications to meet customers' needs; (iii) the increased Directors' remuneration of approximately RMB1.2 million granted to the executive Directors for the year ended 31 December 2017; and (iv) additional losses of approximately RMB0.9 million arising from the impairment of trade receivables as a result of management assessment on the recoverability of some outstanding balances from debtors as at 31 December 2017.

Finance costs

There was an increase in finance costs for the year ended 31 December 2017, increasing from approximately RMB4.5 million for the year ended 31 December 2016 to approximately RMB5.5 million for the year ended 31 December 2017. Such increase in the finance costs was mainly due to a higher average effective interest rate arising from the long-term straight bonds issued during the year ended 31 December 2017. The average effective interest rate rose from approximately 6.4% for the year ended 31 December 2016 to approximately 7.4% for the year ended 31 December 2017.

Income tax expense

There was a decrease of approximately RMB2.8 million in the income tax expenses for the year ended 31 December 2017, decreasing from approximately RMB22.0 million for the year ended 31 December 2016 to approximately RMB19.2 million for the year ended 31 December 2017, which was mainly due to the decrease in the operating profits earned in China for the year ended 31 December 2017.

The overall effective tax rate of the Group decreased from approximately 29.3% for the year ended 31 December 2016 to approximately 27.7% for the year ended 31 December 2017. Higher effective tax rate for the year ended 31 December 2016 was mainly due to the non-recurring listing expenses incurred in Hong Kong for the year ended 31 December 2016 which was not deductible for income tax purpose.

Total comprehensive income attributable to shareholders

There was a decrease of approximately 5.8% in the total comprehensive income attributable to shareholders of the Company for the year ended 31 December 2017, from approximately RMB53.2 million for the year ended 31 December 2016 to approximately RMB50.1 million for the year ended 31 December 2017, which was mainly due to the decrease in the gross profit margins of both plywood products and biomass wood pellets for the year ended 31 December 2017.

Property, plant and equipment

During the year ended 31 December 2017, the Group has contributed approximately RMB69.8 million in construction of a number of new production facilities in Heze city, Shandong Province in China, where our existing production facilities are located, for the production of plywood products and biomass wood pellets. New production facilities are constructed mainly to expand the production capacities to support the development of the Group's business. In addition, the Group has expanded the peeling function of the existing production facilities for plywood products for a more stable supply of plywood veneers as the major type of raw materials for the production of plywood products.

As at 31 December 2017, items of property, plant and equipment with carrying amount of approximately RMB56.2 million were pledged to the financial institutions in favour of some of the bank borrowings advanced to the Group.

Inventories

The Group's inventory balances as at 31 December 2017 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB42.4 million, from approximately RMB46.6 million as at 31 December 2016 to approximately RMB89.0 million as at 31 December 2017, was mainly due to more raw materials, work in progress and finished goods of plywood products stored up as at 31 December 2017 to meet the production and sales plan in the first quarter of the year 2018. The inventory as at 31 December 2017 have been fully utilised and sold subsequently by the date of this report.

Trade receivables

Trade receivables balance as at 31 December 2017 mainly represented outstanding balance from customers of our plywood products. There was an increase in trade receivables balance before provision for impairment of approximately RMB24.6 million, from approximately RMB128.6 million as at 31 December 2016 to approximately RMB153.2 million as at 31 December 2017. Notwithstanding to the above, the Group's trade receivables turnover days of approximately 88 days are still maintained to be shorter than credit terms of 90 days granted to the Group's customers in general.

Given the Group has recorded an increase of trade receivable balance as at 31 December 2017, a specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB6.2 million of provision for impairment of trade receivable balances was recorded as at 31 December 2017.

Cash and cash equivalents

There was a decrease in the balance of cash and cash equivalents of approximately RMB53.4 million from approximately RMB127.7 million as at 31 December 2016 to approximately RMB74.3 million as at 31 December 2017. Upon the successful listing of the Shares on Stock Exchange on 19 December 2016, the Group has received net proceeds of approximately RMB107.3 million in December 2016, resulting in a significant increase of the Group's cash and cash equivalents balance as at 31 December 2016. During the year ended 31 December 2017, the Group has utilised a portion of the net proceeds from the IPO totaling approximately RMB68.5 million in the construction of new production facilities and purchase of machineries for both plywood products and biomass wood pellets, and also for the operation of the sales office newly set up in Fujian province of China during the year ended 31 December 2017. In addition to the net proceeds received from the IPO, the Group has completed a placing of 149,400,000 shares of the Company in November 2017, raising a net proceeds of approximately HK$88.7 million (equivalent to approximately RMB75.6 million). Out of the approximate RMB75.6 million, approximately RMB44.1 million has been utilised up to 31 December 2017 for the construction of the new production facilities for the manufacture of plywood veneers which are one of the key raw materials for the manufacture of the Group's plywood products.

Borrowings

The source of debt financing of the Group was mainly from banks and individual bondholders.

As at 31 December 2017, the Group had bank borrowings of RMB27 million advanced from banks located in China, reducing from RMB84 million as at 31 December 2016. All of the bank borrowings were current in nature and subject to renewal upon maturity. Certain items of property, plant and equipment and also the land use rights with carrying amounts of approximately RMB79.0 million were pledged to the banks to secure the bank borrowings advanced to the Group. Upon the successful listing of the shares of the Company on Stock Exchange on 19 December 2016, the Group has been in the process of negotiating better borrowing terms with the existing banks and also other potential banks hoping to further lower the finance costs of the Group in the long run.

In addition to the bank borrowings, the Group issued long-term straight bonds to some individuals as another channel of financing to the Group during the year ended 31 December 2017. As at 31 December 2017, the Group has outstanding bonds with a total principal amount of approximately RMB23.4 million. The maturity periods of the bonds issued by the Group range from 3 years to 7.5 years. The Group considers them as a supplement to the Group's short-term borrowings to support the Group's long-term expansion.

All of the borrowings were arranged at fixed interest rates.

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the *Management Discussion and Analysis* section set out on pages 9 to 15 and the audited financial statements set out on pages 34 to 93 of this annual report. This discussion forms part of this report of the directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 34 to 93 of this annual report.

The Directors do not recommend the payment of any dividends in respect of the year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange in December 2016 and January 2017, after deduction of related issuance expenses, amounted to approximately RMB110.0 million. These proceeds were partially applied during the period from the date of listing of the Shares to 31 December 2017 as follows:

- approximately RMB39.2 million was used for the expansion of the production capacity for the Group's plywood products;
- approximately RMB13.0 million was used for the expansion of the production capacity for the Group's biomass wood pellets;
- approximately RMB5.3 million was used for the expansion of the sales coverage within Mainland China; and
- approximately RMB11.0 million was applied as additional working capital of the Group.

USE OF PROCEEDS FROM PLACING OF NEW SHARES

The Company completed the placing of 149,400,000 new Shares on 28 November 2017. The closing price of the Share on 23 November 2017, the date on which the terms of the Shares placing were fixed, was HK$0.68. To the best of the Directors' knowledge, each of the placees is an independent third party and none of them has become a substantial Shareholder right after the Shares placing. The Company received net proceeds of approximately RMB75.6 million, out of which approximately RMB44.2 million were used up to 31 December 2017 for financing the construction of a new production facility, which will be used to manufacture plywood veneers, one of the key raw materials for the Group's plywood products.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 94 of this annual report. This summary does not form part of the Group's audited financial statements.

SHARE CAPITAL

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB185,321,000.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB85,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. KE Mingcai *(chairman)*
Mr. WANG Songmao *(chief executive officer)*
Mr. ZHANG Ayang
Mr. WU Shican

Independent non-executive Directors:

Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei
Mr. WANG Yuzhao

In accordance with articles 84(1) and 84(2) of the articles of association of the Company, Mr. WU Shican, Mr. LIN Triomphe Zheng and Mr. SHAO Wanlei will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming general meeting. The independent non-executive Directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. LIN Triomphe Zheng, Mr. SHAO Wanlei and Mr. WANG Yuzhao, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

DEED OF NON-COMPETITION

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

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed Non-Competition during the year ended 31 December 2017.

EMOLUMENT POLICY

The Group has 613 employees in Hong Kong and Mainland China as at 31 December 2017. The total salaries and related costs granted to employees amounted to approximately RMB26.8 million for the year ended 31 December 2017.

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

DIRECTORS' REMUNERATION

Subsequent to 31 December 2017, the Group has reviewed Directors' remuneration. After discussion with and approval by the Company's nomination committee and the Board, adjustments have been made on the remuneration of certain Directors.

The annual remuneration of Directors whose remuneration has been adjusted starting from 1 January 2018 is set out below:

	HK$
Mr. KE Mingcai	1,320,000
Mr. WANG Songmao	792,000
Mr. ZHANG Ayang	792,000
Mr. WU Shican	792,000

The adjusted annual remuneration of the above Directors are fixed remuneration and are covered by service contracts entered into with the Company.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2017, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for the benefits of all Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Mr. WANG Songmao, being a beneficial shareholder of Bao Wei Automotive Technology (Jiangsu) Co. Ltd (寶瑋汽車科技（江蘇）有限公司), was interested in a contract for the purchase of plywood products of RMB133,000 from the Group during the year ended 31 December 2017.

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

CONNECTED TRANSACTIONS

All of the Group's related party transactions for the year ended 31 December 2017 did not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

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

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Interests in persons acting in concert** *(Note 1)*	**Total**	**Percentage of the Company's share capital**
Mr. KE Mingcai	190,843,200	—	149,205,600	340,048,800	37.93%
Mr. WANG Songmao	52,056,000	—	287,992,800	340,048,800	37.93%
Mr. ZHANG Ayang *(Note 2)*	—	340,048,800	—	340,048,800	37.93%
Mr. WU Shican	24,300,000	—	315,748,800	340,048,800	37.93%

Notes:

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

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

Save as disclosed above, as at 31 December 2017, none of the Directors and the Company's chief executive had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

At 31 December 2017, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Interests in persons acting in concert** *(Note 1)*	**Total**	**Percentage of the Company's share capital**
Mr. WONG Tseng Hon	79,310,000	—	79,310,000	8.85%
Ms. WU Haiyan	41,637,600	298,411,200	340,048,800	37.93%
Mr. LIN Qingxiong	31,212,000	308,836,800	340,048,800	37.93%

Note:

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

Save as disclosed above, as at 31 December 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

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

ON BEHALF OF THE BOARD

KE Mingcai
Chairman

Hong Kong
29 March 2018

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules on the Stock Exchange throughout the year ended to 31 December 2017.

BOARD OF DIRECTORS

Board composition

The Board currently comprises seven Directors, including four executive Directors and three independent non-executive Directors. As at 31 December 2017 and as at the date of this report, the Board comprises the followings Directors:

Executive Directors

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

Independent non-executive Directors

Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei
Mr. WANG Yuzhao

Independence of the independent non-executive Directors

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

Continuous professional development

During the year ended 31 December 2017, the Directors participated in continuous professional development by either attending external seminars and conferences, or reading materials relating corporate governance practices, directors' duty and Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

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

APPOINTMENT OF DIRECTORS

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

Roles and responsibilities

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

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

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions.

All Directors have confirmed that they have complied with the standards set out in the Model Code throughout the year ended 31 December 2017.

BOARD COMMITTEES

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

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

Audit committee

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

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

The work performed by the audit committee during the year ended 31 December 2017 comprises the followings:

- reviewing the annual results and the annual report of the Group for the year ended 31 December 2016;
- reviewing the interim results and the interim report of the Group for the six months ended 30 June 2017;
- assessing the effectiveness of the Group's internal audit function;
- making recommendations to the Board on reappointment of the Company's external auditor;
- approving the remuneration and terms of engagement of the Company's external auditor;
- reviewing and monitoring the independence of the Company's external auditor, objectivity and the effectiveness of the audit process;
- reviewing the Group's financial control system; and
- reviewing the Group's accounting policies and practices.

Remuneration committee

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

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

The work performed by the remuneration committee during the year ended 31 December 2017 comprises the followings:

- reviewing the policy for the remuneration of executive Directors; and
- assessing performance of executive Directors and approving the terms of executive Directors' service contracts.

Nomination committee

The nomination committee is mainly responsible for the followings:

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

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

The work performed by the nomination committee during the year ended 31 December 2017 included reviewing the policy for the nomination of Directors.

Risk management committee

The risk management committee is mainly responsible for the followings:

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

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

The work performed by the risk management committee during the year ended 31 December 2017 included reviewing the Group's risk management and internal control systems.

Board and Board committee meetings

The attendance of each Director for the Board meetings and Board committee meetings held during the year ended 31 December 2017 is set out in the following table:

	Meetings attended / meetings eligible to attend				
Directors	Board	Audit committee	Remuneration committee	Nomination committee	Risk management committee
Executive Directors					
Mr. KE Mingcai	3/5	N/A	N/A	1/1	N/A
Mr. WANG Songmao	4/5	N/A	N/A	N/A	N/A
Mr. ZHANG Ayang	4/5	N/A	N/A	N/A	1/1
Mr. WU Shican	5/5	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. LIN Triomphe Zheng	3/5	2/2	1/1	N/A	1/1
Mr. SHAO Wanlei	3/5	2/2	1/1	1/1	N/A
Mr. WANG Yuzhao	3/5	2/2	1/1	1/1	N/A

AUDITORS' REMUNERATION

PricewaterhouseCoopers has been appointed as the auditors of the Company in respect of the audit of the financial statements of the Company for the year ended 31 December 2017. In addition, PricewaterhouseCoopers was engaged as the Company's advisor for the preparation of the environmental, social and governance report for the year ended 31 December 2016. Save as disclosed, no non-audit services have been provided by PricewaterhouseCoopers to the Group during the year ended 31 December 2017.

An analysis of the fees paid or payable to PricewaterhouseCoopers in relation to services rendered to the Company for the year ended 31 December 2017 is as follows:

	RMB'000
Audit services	1,800
Non-audit services	130
	1,930

SHAREHOLDERS' RIGHTS

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

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

CONSTITUTIONAL DOCUMENTS

There is no significant changes in the constitutional documents of the Company during the year ended 31 December 2017.

FINANCIAL REPORTING

Directors' responsibilities

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

Auditors' responsibilities

The reporting responsibilities of the Company's auditors with regards to the consolidated financial statements of the Group are set out on page 32 to 33 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that it has conducted a review of the risk management and internal control systems of the Group during the year ended 31 December 2017 by the internal audit team. The Board concludes, based on the result of the review, that the risk management and internal control systems currently in place are adequate and effective.

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

pwc

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 34 to 93, which comprise:

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

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

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Independence

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition — sales of products *Refer to Note 2.21 (Summary of significant accounting policies) and Note 5 (Revenue and segment information) of the consolidated financial statements.* For the year ended 31 December 2017, the Group recognised revenue of RMB499,563,000 from the sale of plywood and biomass wood pellets. Revenue is recognised when the amount and the related costs are reliably measured, and the risks and rewards of the underlying products have been transferred to the customers. We focused on this area due to the large volume of revenue transactions to customers.	We understood, evaluated and tested management's key controls within sales process, including sales order's approval, goods delivery, sales recording, all the way through to reconciliations with cash receipts and subsequent settlements of trade receivables. We tested revenue recorded on sample basis covering different locations and customers, by examining the relevant supporting documents including sales contracts, goods delivery notes and sales invoices. We sent requests to selected customers to confirm the receivable balances as at 31 December 2017 and the amounts of sales transactions occurred during the year. The customers were selected by considering the amounts of transactions and balances, as well as nature and characteristics of customers. We tested sales transactions that took place shortly before and after the balance sheet date, by reconciling goods delivery notes to recognised revenue to assess whether revenue was recognised in the correct reporting periods. Based on our work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables *Refer to Note 4(b) (Critical accounting estimates and judgments) and Note 17 (Trade and other receivables) of the consolidated financial statements.* As at 31 December 2017, the Group's trade receivables amounted to RMB153,180,000, and a provision for impairment of RMB6,232,000 was made. The recoverability of significant receivables was assessed on an individual basis based on management's estimates of the future cash flows. Trade receivable balances without objective evidence of impairment were grouped based on their ageing profile and customers' credit condition for collective evaluation. The collective impairment provision was determined by management based on historical loss experience, taking into considerations of current circumstances. We focused on this area due to the magnitude of the trade receivables balance, and the significance of management's judgments and estimation applied in assessing the recoverability of such balances.	We assessed management's identification of individually impaired trade receivables by enquiry of management and sales personnel and performing independent research of customer background. We tested the grouping of the trade receivables on sample basis by checking the supporting documents including sales invoices, customer information profile and subsequent settlements. We assessed management's estimation of collective provision by considering the historical loss experience, the ageing profile, customers' credit condition, and other evidences including, inter alia, confirmations from customers and subsequent settlements. Based on our work performed, we found that management's judgments made in assessing the recoverability of trade receivables were supported by the evidence we gathered.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Audit Committee are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	5	**499,563**	466,118
Cost of sales	8	**(402,312)**	(359,969)
Gross profit		**97,251**	106,149
Selling and distribution expenses	8	**(1,603)**	(933)
Administrative expenses	8	**(27,318)**	(34,584)
Other income	6	**7,965**	9,217
Other losses — net	7	**(2,494)**	(93)
Operating profit		**73,801**	79,756
Finance income	10	**1,051**	5
Finance costs	10	**(5,489)**	(4,499)
Finance costs — net	10	**(4,438)**	(4,494)
Profit before income tax		**69,363**	75,262
Income tax expense	11	**(19,220)**	(22,031)
Profit for the year		**50,143**	53,231
Comprehensive income		**—**	—
Total comprehensive income for the year and attributable to the shareholders of the Company		**50,143**	53,231
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB cents per share)			
— Basic and diluted	12	**6.59**	9.74

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Land use rights	14	25,106	23,300
Property, plant and equipment	15	164,417	99,813
Deferred income tax assets	24	920	1,071
Prepayment	17	3,150	—
		193,593	124,184
Current assets			
Inventories	16	88,955	46,581
Trade and other receivables	17	159,572	128,148
Cash and cash equivalents	18	74,263	127,690
		322,790	302,419
Total assets		516,383	426,603
Equity and liabilities			
Equity attributable to the shareholders of the Company			
Share capital	19	7,906	6,393
Share premium	19	185,321	95,750
Other reserves	20	50,888	45,126
Retained earnings		188,899	144,518
Total equity		433,014	291,787
Liabilities			
Non-current liabilities			
Borrowings	21	22,709	—
Deferred income	23	393	417
Deferred income tax liabilities	24	26	—
		23,128	417

	Notes	2017 RMB'000	2016 RMB'000
Current liabilities			
Trade and other payables	22	**17,634**	29,905
Current income tax liabilities		**14,998**	19,471
Borrowings	21	**27,609**	85,023
		60,241	134,399
Total liabilities		**83,369**	134,816
Total equity and liabilities		**516,383**	426,603

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 34 to 93 were approved by the Board of Directors on 29 March 2018 and were signed on its behalf.

Ke Mingcai	**Wang Songmao**
Director	*Director*

	Equity attributable to the shareholders of the Company				
	Share capital (Note 19) RMB'000	Share premium (Note 19) RMB'000	Other reserves (Note 20) RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2016	—	—	38,632	97,781	136,413
Total comprehensive income					
Profit for the year	—	—	—	53,231	53,231
Transactions with the shareholders					
Issue of new shares upon initial public offering	1,598	100,545	—	—	102,143
Share capitalisation	4,795	(4,795)	—	—	—
Profit appropriation to statutory reserves	—	—	6,494	(6,494)	—
Total transactions with the shareholders	6,393	95,750	6,494	(6,494)	102,143
Balance at 31 December 2016	6,393	95,750	45,126	144,518	291,787
Total comprehensive income					
Profit for the year	—	—	—	50,143	50,143
Transactions with the shareholders					
Issue of new shares	1,513	89,571	—	—	91,084
Profit appropriation to statutory reserves	—	—	5,762	(5,762)	—
Total transactions with the shareholders	1,513	89,571	5,762	(5,762)	91,084
Balance at 31 December 2017	**7,906**	**185,321**	**50,888**	**188,899**	**433,014**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	25	(5,845)	3,068
Interest received	10	17	5
Interest paid	10	(4,731)	(4,108)
Income tax paid		(23,516)	(17,161)
Net cash outflow from operating activities		(34,075)	(18,196)
Cash flows from investing activities			
Purchases of property, plant and equipment		(70,284)	(4,324)
Purchase of land use rights	14	(2,334)	–
Prepayment for land use rights	17	(3,150)	–
Proceeds from disposal of property, plant and equipment	25	30	–
Net cash outflow from investing activities		(75,738)	(4,324)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		91,084	103,204
Proceeds from borrowings	25	153,615	94,000
Repayments of borrowings	25	(188,044)	(56,000)
Proceeds from borrowing from a shareholder	27	–	155,115
Repayments of borrowing from a shareholder	27	–	(155,115)
Net cash inflow from financing activities		56,655	141,204
Net (decrease)/increase in cash and cash equivalents		(53,427)	118,684
Cash and cash equivalents at beginning of year	18	127,690	9,006
Effect of exchange rate changes on cash and cash equivalents		(269)	–
Cash and cash equivalents at end of year	18	74,263	127,690

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 29 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial liabilities that are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures

(a) Amended standards adopted by the Group

The following amendments to standards relevant to the Group are mandatory for the first time for the financial year beginning on or after 1 January 2017:

— Amendments to IAS 7 "Statement of cash flows" introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments as mentioned above did not have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Amendments to existing standards effective in 2017 but not relevant to the Group

		Effective for annual periods beginning on or after
IAS 12 (Amendments)	Income taxes	1 January 2017
IFRS 12 (Amendment)	Disclosure of interest in other entities	1 January 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 1 (Amendment)	First time adoption of IFRS	1 January 2018
IFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (Amendments)	Insurance contracts	1 January 2018
IFRS 9	Financial instruments (i)	1 January 2018
IFRS 15	Revenue from contracts with customers (ii)	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
IAS 40 (Amendments)	Transfers of investment property	1 January 2018
IFRS 16	Leases (iii)	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	1 January 2021 or when apply IFRS 15 and IFRS 9

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group: – *continued*

(i) IFRS 9, Financial Instruments

Nature of change

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

Impact

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instrument that are classified as available-for-sale financial assets;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group: – *continued*

(i) IFRS 9, Financial Instruments – *continued*

Impact – *continued*

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change to the loss provision for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

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

(ii) IFRS 15, Revenue from Contracts with Customers

Nature of change

The International Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group: – *continued*

(ii) IFRS 15, Revenue from Contracts with Customers – *continued*

Impact

When applying IFRS 15, revenue shall be recognised by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

The Group engaged in the manufacturing and sales of plywood and biomass wood pellets business. The Group does not introduce any customer loyalty programme which is likely to be affected by the new IFRS 15.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that will be affected:

- Rights of return — IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the large size and low value of the Group's products, the historical goods return rate is very low. The financial impact of applying new IFRS 15 is not material.
- Presentation of contract assets and contract liabilities in the balance sheet — IFRS 15 requires separate presentation of contract assets and contract liabilities on the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group: – *continued*

(ii) IFRS 15, Revenue from Contracts with Customers – *continued*

Date of adoption by the Group

Mandatory for financial years commencing on or after 1 January 2018. The Group has adopted the new standard from 1 January 2018. The Group adopted the standard using the modified retrospective approach, which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

(iii) IFRS 16, Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

2.1.1 Changes in accounting policy and disclosures – continued

(c) New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group: – *continued*

(iii) IFRS 16, Leases – *continued*

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB560,000. The Group estimates that approximately 100% of these relate to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in the consolidated statements of comprehensive income.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's comprehensive income and classification of cash flows going forward.

Date of adoption by the Group

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

The Group is assessing the full impact of the new and amendments to standards and interpretations. According to the preliminary assessment, other than the assessment results of IFRS 9, 15 and 16 stated above, none of these is expected to have a significant impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

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

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

2.3 Separate financial statements

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

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

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the functional currency of the entities in the Group and the Company's and the Group's presentation currency.

(ii) Transactions and balances

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

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

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress ("CIP") represents buildings and machineries under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Property, plant and equipment – *continued*

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

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

2.7 Land use rights

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

2.8 Impairment of investments in subsidiaries and non-financial assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Financial assets

(i) Classification

The Group classifies its financial assets as loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables" and "Cash and cash at banks" in the consolidated balance sheets (Notes 17 and 18).

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statements of comprehensive income.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Impairment of financial assets

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

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

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

Impairment testing of trade receivables is described in note 17.

2.12 Inventories

Inventories include raw materials, work in progress and finished goods which are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.

2.13 Trade receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Trade receivables – *continued*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.9 for further information about the Group's accounting for trade receivables and note 2.11 for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity.

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

2.16 Trade and other payables

These amounts represent liabilities for goods provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Borrowings – *continued*

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

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

2.18 Borrowing costs

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

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

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

2.19 Current and deferred income tax

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

Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Current and deferred income tax – *continued*

Deferred income tax

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

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

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Current and deferred tax is recognised in the consolidated statements of comprehensive income.

2.20 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity managed by local governments. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of products

Timing of recognition: The Group manufactures and sells plywood and biomass wood pellets. Sales are recognised when products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been delivered into the carrier at the named port. the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Measurement of revenue: Customers have a right to return faulty products. Revenue from sales is based on the price specified in the sales contracts, net of returns at the time of sale. Accumulated experience is used to estimate and provide for the returns. No element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with market practice.

2.22 Interest income

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

2.23 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Leases – *continued*

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

2.24 Research and development

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

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

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

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

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

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

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 6 provides further information on how the Group accounts for government grants.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's risk management is carried out by a central treasury department (the treasury of the Group) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The directors do not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in Mainland China with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2017.

In 2017, the Group received proceeds, denominated in HK$ from the placing of shares and issue of bonds of the Company. The proceeds will be used for the expansion of the Group in Mainland China. The Group manages the currency risk arising from proceeds from new shares issuance and bonds by remitting majority of the funds to Mainland China and exchanging into RMB as soon as possible.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(a) Market risk – continued

(i) Foreign exchange risk – *continued*

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Amounts recognised in profit or loss		
Net foreign exchange losses/(gains) included in other income/other losses – net	**2,366**	(25)
Net foreign exchange gains on foreign currency borrowing included in finance costs - net	**(1,034)**	–
Total net foreign exchange losses/(gains) recognised in profit before income tax for the year	**1,332**	(25)

At 31 December 2017, if RMB had weakened/strengthened by 10% against the US$ and HK$ (pegged with US$) with all other variables held constant, the net profit for the year would have been RMB148,000 higher/lower (2016: RMB8,577,000 higher/lower), mainly as a result of foreign exchange gains/(losses) on translation of US$ and HK$ denominated cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

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

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

As at 31 December 2017, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, the net profit for the years ended 31 December 2017 would have been decreased/increased by approximately RMB412,000 (2016: RMB325,000).

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(c) Liquidity risk – continued

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2017					
Borrowings	27,000	–	8,359	15,046	50,405
Interest payables for borrowings	2,088	1,513	4,338	2,445	10,384
Trade and other payables	8,550	–	–	–	8,550
	37,638	1,513	12,697	17,491	69,339
At 31 December 2016					
Borrowings	85,023	–	–	–	85,023
Interest payables for borrowings	1,323	–	–	–	1,323
Trade and other payables	17,479	–	–	–	17,479
	103,825	–	–	–	103,825

3.2 Capital management

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

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

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.2 Capital management – *continued*

The gearing ratios as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Total borrowings (Note 21)	50,318	85,023
Total equity	433,014	291,787
Gearing ratio	12%	29%

The decrease in gearing ratio during the year is resulted primarily from the repayment of bank borrowing, the increase in total equity due to the funds from placing new shares and the net profit derived during the year ended 31 December 2017.

3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2017, the Group had no financial instruments that are subsequently measured at fair value.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

(b) Provision for doubtful receivables

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

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

The carrying amounts of the Group's trade and other receivables are disclosed in Note 17. Management is of the view that the allowance for doubtful receives is adequately recorded as of 31 December 2017.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – *continued*

(c) Current and deferred income taxes

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

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

5 REVENUE AND SEGMENT INFORMATION

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

(i) Manufacturing and sales of plywood; and

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

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

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

No revenue was derived from a single external customer that exceeded 10% of the total revenue of the Group for the years ended 31 December 2017 and 2016.

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

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

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2017

The segment information for the year ended 31 December 2017 is as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Unallocated RMB'000	Group RMB'000
Segment result					
Revenue	401,176	108,329	(9,942)	–	499,563
Segment results	67,233	18,499	–	(11,931)	73,801
Finance costs – net (Note 10)					(4,438)
Profit before income tax					69,363
Income tax expense (Note 11)					(19,220)
Profit for the year					50,143
Other segment items					
Amortisation of land use rights (Note 14)	308	220	–	–	528
Depreciation (Note 15)	3,854	1,861	–	–	5,715
Gain on disposal of property, plant and equipment (Note 7)	(14)	–	–	–	(14)
Additions to non-current assets	62,737	13,082	–	–	75,819

The segment assets and liabilities at 31 December 2017 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Segment and total assets	383,882	109,543	22,958	516,383
Segment and total liabilities	49,742	10,118	23,509	83,369

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2016

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

	Plywood	Biomass wood pellets	Inter-segment revenue	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment result					
Revenue	363,685	109,115	(6,682)	–	466,118
Segment results	65,215	24,930	–	(10,389)	79,756
Finance costs – net (Note 10)					(4,494)
Profit before income tax					75,262
Income tax expense (Note 11)					(22,031)
Profit for the year					53,231
Other segment items					
Amortisation of land use rights (Note 14)	290	217	–	–	507
Depreciation (Note 15)	3,392	1,814	–	–	5,206
Additions to non-current assets	137	5	–	–	142

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

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

6 OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Refund of value added tax ("VAT") (i)	4,285	6,800
Sales of plywood core	3,626	1,923
Amortisation of deferred income related to government grants (ii)	24	23
Net foreign exchange gains	—	25
Others	30	446
	7,965	9,217

(i) Pursuant to the approval by the Economic and Information Technology Committee of Shandong Province, a subsidiary of the Group in the manufacture of biomass wood pellets was entitled to VAT refund of its sales of products which involves comprehensive utilisation of resources for years ended 31 December 2017 and 2016.

(ii) Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected lives of the related assets. See Note 23 for further details.

7 OTHER LOSSES — NET

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net foreign exchange losses	2,366	—
Donations	85	—
Gain on disposal of property, plant and equipment	(14)	—
Others	57	93
	2,494	93

8 EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Changes in inventories of finished goods and work-in-progress	**(20,804)**	(11,043)
Raw materials and consumables used	**387,537**	341,735
Employee benefit expenses (Note 9)	**26,761**	20,811
Research and development expenses	**10,821**	6,928
Provision for receivables impairment (Note 17)	**3,540**	2,692
Depreciation and amortisation (Notes 14 and 15)	**6,243**	5,713
Utilities	**6,053**	5,460
Taxes and levies	**3,540**	3,780
Audit service	**1,902**	1,300
Professional fees in respect of the initial public offering	**—**	13,194
Other expenses	**5,640**	4,916
Total cost of sales, selling and distribution expenses and administrative expenses	**431,233**	395,486

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and bonuses	**24,469**	20,335
Pension, housing fund, medical insurance and other social benefits	**2,292**	476
Total employee benefit expenses	**26,761**	20,811

(a) Pension costs — defined contribution plans

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

9 EMPLOYEE BENEFIT EXPENSES – *continued*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are all senior management and included four (2016: four) directors during the year, whose emoluments are reflected in the analysis shown in Note 31. The emoluments paid to the remaining individual during the year were as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries and bonus	**813**	882
Pension, housing fund, medical insurance and other social benefits	**16**	16
	829	898

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

	Year ended 31 December	
	2017	2016
Emolument band (in HK$)		
Nil to HK$1,000,000	**1**	1

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

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Finance income:		
— Interest income on bank deposits	**(17)**	(5)
— Net foreign exchange gains on financing activities (Note 25)	**(1,034)**	—
Total finance income	**(1,051)**	(5)
Finance costs:		
— Interest expense on borrowings from banks	**4,731**	4,108
— Interest expense on bonds (Note 25)	**737**	—
— Interest expense on finance leases (Note 25)	**21**	391
Total finance costs	**5,489**	4,499
Net finance costs	**4,438**	4,494

11 INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current income tax	**19,043**	21,243
Deferred income tax (Note 24)	**177**	788
Total income tax	**19,220**	22,031

(i) Cayman Islands profit tax

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

11 INCOME TAX EXPENSE – *continued*

(ii) British Virgin Islands profits tax

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

(iii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% (2016: 16.5%) for the year.

(iv) Mainland China corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in Mainland China. The applicable CIT tax rate is 25% (2016: 25%) for the year.

(v) Mainland China withholding income tax

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of Mainland China. A lower withholding tax rate may be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided (Note 24) as the directors have confirmed that the Group does not expect Mainland China subsidiaries to distribute the retained earnings as at 31 December 2017 in the foreseeable future.

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**69,363**	75,262
Tax calculated at domestic tax rates applicable to profits in the respective year	**17,341**	18,816
Tax effects of:		
— Expenses not deductible for tax purpose	**2,671**	2,883
— Income not subject to tax	**(1,395)**	—
— Unrecognised tax losses	**603**	332
Tax charge	**19,220**	22,031

12 EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the years ended 31 December 2017 and 2016 is calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017 **RMB'000**	2016 RMB'000
Profit attributable to the shareholders	**50,143**	53,231
Weighted average number of ordinary shares in issue (thousands)	**760,547**	546,393
Basic earnings per share (RMB cents)	**6.59**	9.74

(b) Diluted

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

During the years ended 31 December 2017 and 2016, the diluted earnings per share is equal to basic earnings per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

13 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The place of incorporation or registration is also their principal place of business.

Company name	Place of incorporation/operation and kind of legal entity	Principal activities	Issued and paid capital	Ownership interest held by the Group	
				2017	2016
<u>Directly held:</u>					
Heroic Group Limited 雄英集團有限公司	BVI, limited liability company	Investment holding	US$50,000	100%	100%
<u>Indirectly held:</u>					
Mei Sem (Hong Kong) Holding Co., Limited 美森(香港)控股有限公司	Hong Kong, limited liability company	Investment holding	HK$10,000	100%	100%
Dasen (Hong Kong) Holdings Company Limited 大森(香港)控股有限公司	Hong Kong, limited liability company	Investment holding	HK$10,000	100%	100%
Meisen (Shandong) Wood Limited 美森(山東)木業有限公司	Mainland China, limited liability company	Manufacturing and sales of plywood	RMB79,882,514	100%	100%
Dasen (Heze) Biomass Energy Limited 大森(菏澤)生物質能源有限公司	Mainland China, limited liability company	Manufacturing and sales of biomass wood pellets fuel	US$6,000,000	100%	100%
Da Sen Heze Advanced Materials Technology Company Limited 菏澤大森新型材料有限公司(a)	Mainland China, limited liability company	Manufacture of plywood veneers	RMB10,000,000	100%	NA

(a) Da Sen Heze Advanced Materials Technology Company Limited was established on 1 November 2017, with a registered capital of RMB10,000,000. It is wholly-owned by Meisen (Shandong) Wood Limited.

14 LAND USE RIGHTS

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year	**23,300**	23,807
Additions	**2,334**	—
Amortisation	**(528)**	(507)
At end of year	**25,106**	23,300

The land use rights are held with lease term of 50 years and the land is situated in Heze city, Shandong province, the Mainland China.

As at 31 December 2017, land use rights of the Group with a total net book value of RMB22,794,000 (2016: RMB23,300,000), were pledged to secure short-term borrowings as disclosed in Note 21.

As at 31 December 2017, the Group was still in the process of applying for the ownership certificates for various parcels of leasehold land with a total carrying amount of RMB2,134,000 (2016: Nil), of which RMB2,134,000 (2016: Nil) had no relevant signed contracts with the local government.

15 PROPERTY, PLANT AND EQUIPMENT

	Plant RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture fittings and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2016						
Opening net book amount	75,220	28,837	269	551	–	104,877
Additions	105	–	–	37	–	142
Depreciation charge	(2,639)	(2,273)	(126)	(168)	–	(5,206)
Closing net book amount	72,686	26,564	143	420	–	99,813
At 31 December 2016						
Cost	83,615	34,760	1,011	1,047	–	120,433
Accumulated depreciation	(10,368)	(8,196)	(868)	(627)	–	(20,059)
Provision for impairment loss	(561)	–	–	–	–	(561)
Net book amount	72,686	26,564	143	420	–	99,813
Year ended 31 December 2017						
Opening net book amount	72,686	26,564	143	420	–	99,813
Additions	27,117	2,346	429	88	40,355	70,335
Disposals	–	–	(16)	–	–	(16)
Depreciation charge	(3,113)	(2,320)	(119)	(163)	–	(5,715)
Closing net book amount	96,690	26,590	437	345	40,355	164,417
At 31 December 2017						
Cost	110,732	37,106	1,119	1,135	40,355	190,447
Accumulated depreciation	(13,481)	(10,516)	(682)	(790)	–	(25,469)
Provision for impairment loss	(561)	–	–	–	–	(561)
Net book amount	96,690	26,590	437	345	40,355	164,417

During the year ended 31 December 2017, the amounts of depreciation expense charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Cost of sales	4,813	4,483
Administrative expenses	902	723
	5,715	5,206

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

As at 31 December 2017, plants of the Group with a total net book value of RMB56,213,000 (2016: RMB58,321,000), were pledged to secure short-term bank borrowings as disclosed in Note 21.

In 2016, certain machineries were under non-cancellable finance lease. In 2017, those finance lease agreements were expired and the ownership of leasehold was transferred to the Group. There is no leased machinery or equipment as at 31 December 2017. Production machinery and equipment includes the following amounts where the Group is a lessee under finance leases:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cost-capitalised in finance lease	**–**	14,855
Accumulated depreciation	**–**	(2,539)
Net book amount	**–**	12,316

As at 31 December 2017, plants of the Group with a total net book value of RMB17,227,000 (2016: RMB1,503,000), were without real estate titles and they are under the process of getting the real estate certificates.

16 INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Raw materials	**33,410**	12,590
Work-in-progress	**15,236**	13,437
Finished goods	**40,309**	20,554
	88,955	46,581

Note 1: During the years ended 31 December 2017, the cost of inventories recognised in administrative expense and cost of sales was RMB377,554,000 (2016: RMB337,620,000).

17 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade receivables	153,180	128,621
Less: Provision for impairment	(6,232)	(2,692)
Trade receivables — net	146,948	125,929
Prepayments		
— Prepayments for raw materials	11,669	1,141
— Prepayments for land use rights	3,150	—
Other receivables	955	1,078
	162,722	128,148
Less: Prepayment (non-current portion)	(3,150)	—
	159,572	128,148

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

As at 31 December 2017 and 2016, the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Up to 3 months	91,577	92,713
4 to 6 months	29,266	30,372
7 to 12 months	26,044	5,428
Over 1 year	6,293	108
	153,180	128,621

17 TRADE AND OTHER RECEIVABLES – *continued*

As at 31 December 2017, trade receivables of approximately RMB15,320,000 (2016: RMB22,333,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty, and based on experience, the overdue amounts can be recovered. The aging analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Past due for 1 to 6 months	**14,666**	22,215
Past due for more than 6 months	**654**	118
	15,320	22,333

As at 31 December 2017, trade receivables of approximately RMB39,392,000 (2016: 17,959,000) were impaired. The amount of the provision was RMB6,232,000 (2016: 2,692,000). The individually impaired receivables mainly related to customers who were in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The aging analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Past due for 1 to 6 months	**21,891**	16,951
Past due for more than 6 months and less than 1 year	**16,490**	900
Past due for more than 1 year	**1,011**	108
	39,392	17,959

17 TRADE AND OTHER RECEIVABLES – *continued*

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
As at 1 January	**2,692**	–
Provision for impairment recognised during the year	**5,315**	2,692
Reversal of receivables impairment during the year	**(1,775)**	–
As at 31 December	**6,232**	2,692

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

18 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash on hand	**252**	152
Cash at banks	**74,011**	127,538
Cash and cash equivalents	**74,263**	127,690

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**50,074**	41,920
US$	**130**	11,937
HK$	**24,059**	73,833
	74,263	127,690

19 SHARE CAPITAL AND SHARE PREMIUM

		Amount		
	Number of ordinary shares '000	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2016	20	—	—	—
Issue of shares upon initial public offering (a)	180,000	1,598	100,545	102,143
Share capitalisation (b)	539,980	4,795	(4,795)	—
At 31 December 2016	720,000	6,393	95,750	102,143
At 1 January 2017	**720,000**	**6,393**	**95,750**	**102,143**
Issue of shares via exercising over-allotment-option (c)	**27,000**	**242**	**15,262**	**15,504**
Placing of new shares (d)	**149,400**	**1,271**	**74,309**	**75,580**
At 31 December 2017	**896,400**	**7,906**	**185,321**	**193,227**

Notes:

(a) On 19 December 2016, the Company issued 180,000,000 shares of HK$0.01 each at HK$0.70 per share in connection with its initial public offering and commencement of the listing of its shares on The Stock Exchange of Hong Kong Limited on the same date. The gross proceeds raised from the initial public offering was HK$126,000,000 (approximately RMB111,880,000). The transaction costs of RMB9,737,000 were debited to the share premium account.

(b) On 19 December 2016, conditional on the share premium account of the Company being credited as a result of the issue of 180,000,000 shares by the Company in relation to the initial public offering, the directors of the Company were authorised to capitalise an amount of HK$5,399,800 (approximately RMB4,795,000) from the share premium account of the Company by applying such sum in paying up in full at par of the offer shares. The 539,980,000 shares were allotted and issued to the shareholders whose names appearing on the register of members of the Company at the close business on 25 November 2016 in proportion to their then respective shareholdings in the Company.

19 SHARE CAPITAL AND SHARE PREMIUM – *continued*

Notes: – *continued*

(c) On 6 January 2017, an aggregate of 27,000,000 shares of the Company were issued at a price of HK$0.70 per share pursuant to the exercise of an over-allotment option in connection with the initial public offering of the Company in December 2016. The gross proceeds raised was HK$18,900,000 (approximately RMB16,907,000). The transaction costs of RMB1,403,000 were debited to the share premium account.

(d) On 28 November 2017, 149,400,000 shares of the Company were issued at a price of HK$0.60 per share. The gross proceeds raised was HK$89,640,000 (approximately RMB75,777,000). The transaction costs of RMB197,000 were debited to the share premium account.

The total number of authorised share capital of the Company comprised 1,000,000,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2017 and 2016.

20 OTHER RESERVES

	Capital reserve (a) RMB'000	Statutory reserve (b) RMB'000	Total RMB'000
At 1 January 2016	26,889	11,743	38,632
Profit appropriation to statutory reserve	–	6,494	6,494
At 31 December 2016	26,889	18,237	45,126
Profit appropriation to statutory reserve	–	5,762	5,762
At 31 December 2017	**26,889**	**23,999**	**50,888**

(a) Capital reserves

The capital reserves represent the capital injection to Heroic Group Limited and its subsidiaries by the founding shareholders in prior years.

(b) Statutory reserves

Statutory reserves represent statutory surplus reserve of the Company's subsidiaries in Mainland China. The Company's subsidiaries incorporated in Mainland China are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under Mainland China accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in Mainland China at rate of 10% or at the discretion of the board of Directors of Mainland China subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

21 BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bonds (a)	22,709	—
Current		
Bonds within one year (a)	609	—
Short-term bank borrowings		
— Secured (b)	27,000	78,000
— Unsecured (b)	—	6,000
Finance lease liabilities (c)	—	1,023
	27,609	85,023
Total borrowings	50,318	85,023

(a) Bonds:

During the year ended 31 December 2017, the Company issued long-term bonds at a total par value of HK$28,000,000 (equivalent to RMB23,405,000) with fixed interest rates ranging from 6% to 6.5% per annum. The bonds will mature in 3 to 7.5 years. The fair values of the bonds approximated their carrying amount as at 31 December 2017.

As at 31 December 2017, the Group's bonds were repayable as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	609	—
Between 2 and 5 years	8,356	—
Over 5 years	14,353	—
	23,318	—

21 BORROWINGS – *continued*

(b) Borrowings from banks

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB22,794,000 (2016: RMB23,300,000), plants of the Group with net book value of RMB56,213,000 (2016: RMB58,321,000), as at 31 December 2017. The borrowings were also supported by guarantees from related parties (Note 27(a)(iii)).

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

For the year ended 31 December 2017, the weighted average effective interest rate on borrowings from banks was 7.80% (2016: 6.35%).

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

(c) Finance lease liabilities

As at 31 December 2017 the lease agreement was expired and the ownership of leasehold was transferred to the Company. There is no leased machinery or equipment as at 31 December 2017 (Note 15).

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	–	1,046
Later than 1 year and no later than 5 years	–	–
	–	1,046
Future finance charges on finance leases	–	(23)
Present value of finance lease liabilities	–	1,023
The present value of finance lease liabilities is as follows:		
No later than 1 year	–	1,023
Later than 1 year and no later than 5 years	–	–
	–	1,023

21 BORROWINGS – *continued*

(c) Finance lease liabilities – *continued*

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

The net carrying amount of the machinery under finance leases amounted to RMB12,316,000 as at 31 December 2016.

The carrying amounts of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the 31 December 2016.

22 TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**4,916**	3,610
Employee benefit payables	**4,587**	8,147
Other taxes payable	**3,670**	2,797
Advances from customers	**827**	1,482
Payable for listing expenses	**836**	11,161
Others	**2,798**	2,708
	17,634	29,905

As at 31 December 2017 and 2016, the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 3 months	**4,864**	3,610
4 to 6 months	**52**	–
	4,916	3,610

The carrying amounts of the Group's trade and other payables were approximated their fair values and were mainly denominated in RMB.

23 DEFERRED INCOME

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Government grants relating to property, plant and equipment	393	417

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

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
At beginning of year	417	440
Amortised as income (Note 6)	(24)	(23)
At end of year	393	417

24 DEFERRED INCOME TAX

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Deferred income tax assets:		
— Deferred income tax asset to be recovered after more than 12 months	(1,128)	(1,194)
— Deferred income tax asset to be recovered within 12 months	2,048	2,265
	920	1,071
Deferred income tax liabilities:		
— Deferred income tax liabilities to be recovered after more than 12 months	(995)	—
— Deferred income tax liabilities to be recovered within 12 months	969	—
	(26)	—
Deferred income tax assets (net)	894	1,071

24 DEFERRED INCOME TAX – *continued*

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of year	**1,071**	1,859
Income statement charge (Note 11)	**(177)**	(788)
At end of year	**894**	1,071

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

Deferred income tax assets	Impairment losses RMB'000	Government grants RMB'000	Amortisation difference of unrecognised finance lease charge RMB'000	Employee benefits and interest accrual RMB'000	Total RMB'000
At 1 January 2016	140	112	366	2,884	3,502
Credited/(charged) to the consolidated statements of comprehensive income	673	(6)	64	(847)	(116)
At 31 December 2016	813	106	430	2,037	3,386
At 1 January 2017	**813**	**106**	**430**	**2,037**	**3,386**
Credited/(charged) to the consolidated statements of comprehensive income	**885**	**(6)**	**(28)**	**(610)**	**241**
At 31 December 2017	**1,698**	**100**	**402**	**1,427**	**3,627**

24 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities	Depreciation difference of property, plant and equipment RMB'000	Capitalised interest RMB'000	Total RMB'000
At 1 January 2016	1,426	217	1,643
Charged/(credited) to the consolidated statements of comprehensive income	678	(6)	672
At 31 December 2016	2,104	211	2,315
At 1 January 2017	**2,104**	**211**	**2,315**
Charged/(credited) to the consolidated statements of comprehensive income	**425**	**(7)**	**418**
At 31 December 2017	**2,529**	**204**	**2,733**

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the earnings of subsidiaries in Mainland China up to 31 December 2017, as there is no plan of dividends distribution of such earnings in the foreseeable future. Unremitted earnings and the related deferred income tax liabilities have not been recognised for the year are as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Unremitted earnings of subsidiaries in Mainland China	**212,362**	160,332
Deferred income tax liabilities not recognised for withholding tax	**21,236**	16,033

25 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit before income tax	**69,363**	75,262
Adjustments for:		
— Depreciation of property, plant and equipment (Note 15)	**5,715**	5,206
— Amortisation of land use right (Note 14)	**528**	507
— Amortisation of deferred income (Note 23)	**(24)**	(23)
— Gain on disposal of property, plant and equipment (Note 7)	**(14)**	—
— Provision for accounts receivables (Note 17)	**3,540**	2,692
— Finance costs — net (Note 10)	**4,707**	4,494
Changes in working capital		
— Inventories	**(42,374)**	(12,058)
— Trade and other receivables	**(34,964)**	(70,211)
— Trade and other payables	**(12,322)**	(2,801)
Cash (used in)/generated from operations	**(5,845)**	3,068

(b) Proceeds from disposal of property plant and equipment

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Net book amount for disposals (Note 15)	**16**	—
Gain on disposal of property, plant and equipment (Note 7)	**14**	—
Proceeds from disposal of property, plant and equipment	**30**	—

25 CASH GENERATED FROM OPERATIONS – *continued*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year ended 31 December 2017:

	Borrowings due within 1 year RMB'000	**Borrowings due after 1 year** RMB'000	**Total** RMB'000
At 13 December 2016	85,023	–	85,023
Cash flows			
– Inflow from financing activities	130,000	23,615	153,615
– Outflow from financing activities	(188,044)	–	(188,044)
Foreign exchange adjustments	–	(1,034)	(1,034)
Other non-cash movements			
– Reclassification	609	(609)	–
– Amortisation of finance lease costs/ bonds	21	737	758
At 31 December 2017	**27,609**	**22,709**	**50,318**

26 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	6,715	–

(b) Non-cancellable operating leases

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

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

	As at 31 December	
	2017 RMB'000	2016 RMB'000
No later than 1 year	560	709
Later than 1 year and no later than 5 years	–	656
	560	1,365

27 RELATED PARTY TRANSACTIONS

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

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Ke Mingcai	Shareholder, chairman and executive director of the Company
Mr. Wu Zhibin	Key management of the Group
Mr. Cai Jinxu	Former shareholder of the Company

27 RELATED PARTY TRANSACTIONS – *continued*

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

(a) Subsidiaries

Interests in subsidiaries are set out in note 13.

(b) Key management personnel compensation

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Salaries and bonus	**2,882**	1,076
Pension, housing fund, medical insurance and other	**98**	38
	2,980	1,114

(c) Transactions with related parties

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Amount received from related parties		
— Mr. Ke Mingcai	**–**	155,115
Amount repaid to related parties		
— Mr. Ke Mingcai	**–**	(155,115)

(d) Guarantees provided by related parties in respect of the Group's short-term borrowings from banks

As at 31 December 2017, the Group's short-term borrowings of RMB20,000,000 were guaranteed by Mr. Cai Jinxu and Mr. Ke Mingcai via a guarantee agreement between these individuals and a bank (Note 21(b)).

As at 31 December 2016, the Group's short-term borrowings of RMB40,000,000 were guaranteed by Mr. Cai Jinxu and Mr. Wu Zhibin via a guarantee agreement between these individuals and a bank (Note 21(b)).

28 CONTINGENCIES

As at 31 December 2017 and 2016, the Group has no contingent liability.

29 EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no other material subsequent events undertaken by the Company or by the Group after 31 December 2017.

30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2017 RMB'000	2016 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	136,450	136,450
Other receivables	50,154	–
	186,604	136,450
Current assets		
Trade and other receivables	121,103	25,870
Cash and cash equivalents	23,727	72,864
	144,830	98,734
Total assets	331,434	235,184
EQUITY		
Capital and reserves attributable to the shareholders		
Share capital	7,906	6,393
Share premium	185,321	95,750
Other reserves	136,450	136,450
Accumulated losses	(25,104)	(13,444)
Total equity	304,573	225,149
LIABILITIES		
Non-current liabilities		
Borrowings	22,709	–
Current liabilities		
Borrowings	609	–
Trade and other payables	3,543	10,035
	4,152	10,035
Total liabilities	26,861	10,035
Total equity and liabilities	331,434	235,184

The balance sheet of the Company was approved by the board of directors of the Company on 29 March 2018 and was signed on its behalf.

Ke Mingcai
Director

Wang Songmao
Director

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

(b) Reserve movement of the Company

	Accumulated losses RMB'000	Other reserves RMB'000
At 1 January 2016	(3,584)	136,450
Loss for the year	(9,860)	–
At 31 December 2016	(13,444)	136,450
Loss for the year	(11,660)	–
At 31 December 2017	**(25,104)**	**136,450**

31 BENEFITS AND INTERESTS OF DIRECTORS

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

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

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2017				
Executive directors:				
Mr. Ke Mingcai	156	421	25	602
Mr. Wang Songmao (i)	156	186	14	356
Mr. Zhang Ayang	156	186	14	356
Mr. Wu Shican	156	186	14	356
Independent non-executive directors:				
Mr. Lin Triomphe Zheng	120	–	–	120
Mr. Shao Wanlei	120	–	–	120
Mr. Wang Yuzhao	60	–	–	60
	924	979	67	1,970

31 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

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

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2016				
Executive directors:				
Mr. Ke Mingcai	–	118	13	131
Mr. Wang Songmao (i)	–	100	13	113
Mr. Zhang Ayang	–	102	13	115
Mr. Wu Shican	–	89	13	102
Independent non-executive directors:				
Mr. Lin Triomphe Zheng (ii)	12	–	–	12
Mr. Shao Wanlei (ii)	12	–	–	12
Mr. Wang Yuzhao (ii)	6	–	–	6
	30	409	52	491

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

(ii) Mr. Lin Triomphe Zheng, Mr. Shao Wanlei and Mr. Wang Yuzhao were appointed as directors of the Company on 25 November 2016.

There were no remuneration paid to the directors of the Company by the shareholders of the Company for the years ended 31 December 2017 and 2016.

For the years ended 31 December 2017 and 2016, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Company waived or had agreed to waive any emoluments.

For the years ended 31 December 2017 and 2016, no consideration was provided to third parties for making available Directors' services.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at each of the years ended 31 December 2017 and 2016 or at any time during the years.

	Years ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**499,563**	466,118	380,860	317,022	166,085
Gross profit	**97,251**	106,149	83,490	75,037	35,044
Operating profit	**73,801**	79,756	67,095	57,212	27,768
Profit before income tax	**69,363**	75,262	61,668	52,481	27,172
Income tax expense	**(19,220)**	(22,031)	(16,446)	(13,555)	(6,842)
Total comprehensive income for the year, attributable to the shareholders of the Company	**50,143**	53,231	45,222	38,926	20,330
Earnings per share for profits attributable to the shareholders of the Company — Basic and diluted	**6.59 cents**	9.74 cents	8.37 cents	7.21 cents	3.76 cents

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**193,593**	124,184	130,655	135,923	114,266
Current assets	**322,790**	302,419	105,219	153,748	70,668
Total assets	**516,383**	426,603	235,874	289,671	184,934
Non-current liabilities	**23,128**	417	1,575	5,278	494
Current liabilities	**60,241**	134,399	97,886	196,512	141,383
Total liabilities	**83,369**	134,816	99,461	201,790	141,877
Total equity	**433,014**	291,787	136,413	87,881	43,057