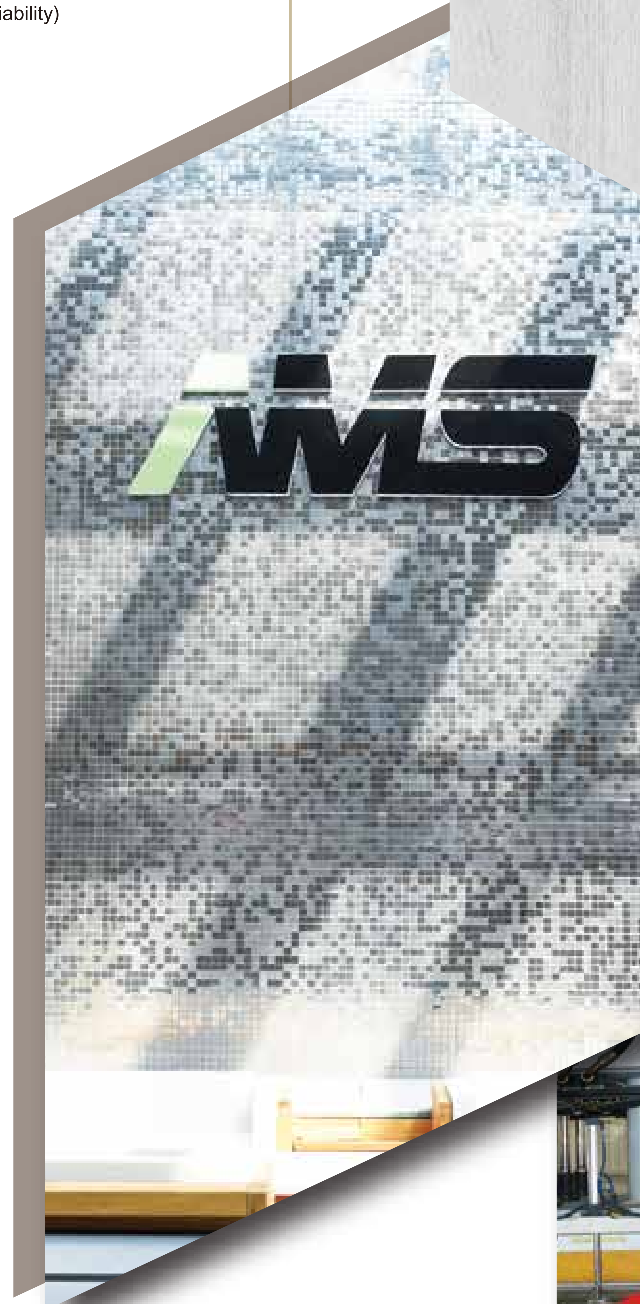
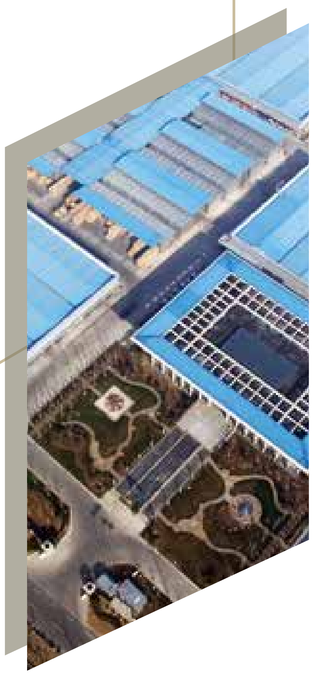
Wood Optimization

CHINA WOOD OPTIMIZATION (HOLDING) LIMITED
中 國 優 材 (控 股) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1885





ANNUAL REPORT 2018

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Corporate Information

BOARD OF DIRECTORS

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Ms. Yim Tsun
Ms. Ho Wing Yan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited, Wei County Branch
Huaxia Bank Co., Ltd., Shijiazhuang Branch Office
Jiangsu Bank, Huai'an Technology Branch
Shanghai Pudong Development Bank, Huai'an Branch

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

AUDITORS

KPMG

SHARE REGISTRARS

Cayman Islands Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

STOCK CODE

1885

COMPANY'S WEBSITE

http://www.chinawood.com.hk

Corporate Profile

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

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

The Group is currently operating two production plants located in Handan City, Hebei Province and Huai'an City, Jiangsu Province, the PRC respectively. In 2018, the Group's subsidiary located in Handan City has awarded 2017 State Science and Technology Improvement Award (Second Class)* (國家科學技術進步獎二等獎). The subsidiary located in Huai'an City has obtained the High and New Technology Enterprise Certificate in 2017, which is valid for a term of three calendar years from 2017 to 2019.

Financial Highlights

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

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**247,592**	238,330	486,497	609,880	512,736
Gross profit	**138,085**	144,403	145,369	154,155	134,791
Gross profit margin (%)	**55.8**	60.6	29.9	25.3	26.3
Profit attributable to equity shareholders of the Company	**69,647**	56,436	70,193	75,113	63,728

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**320,777**	345,646	388,213	379,673	209,204
Total current assets	**454,160**	422,013	363,356	280,746	312,138
Total current liabilities	**(53,336)**	(99,785)	(68,959)	(97,568)	(67,921)
Net current assets	**400,824**	322,228	294,397	183,178	244,217
Non-current liabilities	**(31,807)**	(31,835)	(84,878)	(35,448)	(4,700)
Equity attributable to equity shareholders of the Company	**689,794**	636,039	597,732	527,403	448,721

Chairlady's Statement

To all shareholders,

I am pleased to present to you the annual report of the Group for the financial year ended 31 December 2018 on behalf of the board (the "Board") of directors (the "Directors") of the Group.

OVERVIEW

Looking back on the past year, with the Chinese government continuing to implement strict environmental protection policies, the Chinese economy growing more slowly and unstable factors of global economy arising from the Sino-US trade war, the whole wood industry did not perform as well as expected at the beginning of last year. In particular, the environmental protection policies required wood factories to make rectifications to comply with national environmental protection requirements, which had different extent of effect on the Group, suppliers, wood products manufacturers and users. However, the Group always supports and performs environmental protection policies. Moreover, with the market having room only for the fittest, the pursuit of environmental protection is positive for the country, the wood industry and the Group itself in the long run.

Subject to the stringent environmental protection policies of the Chinese government, some sub-standard raw poplar wood panel suppliers had to shut down temporarily for reorganization or relocate their operations. As such, wood product manufacturers and other customers of the Group have had to purchase less-shaved Processed Wood Panels from the Group to cover their need, and that pushed up by approximately 50% the Group's sales revenue from the product category in 2018 when compared with the corresponding period of last year. On the other hand, to comply with environmental policies, the Group had stopped using the coal-fired boilers in the factory in Handan, Hebei, for switching to using natural gas boilers, and that led to a significant drop in its production capacity. Nonetheless, the Group believes the environmental protection policies can benefit development of China's wood industry in the long run, helping improve governance in the industry and eliminating the enterprises with outdated production capacities. For the Group, protecting the environment is its most important social responsibility, thus it will spare no effort in supporting the cause. It is expected that the plant in Handan of Hebei will complete the rectification and resume production in the second quarter of 2019.

During the year, although the global and Chinese economies were unstable, the Group had benefited indirectly from the trade tariffs imposed by China and the United States of America (the "USA") on each other. For traditional downstream wood product manufacturers who used to import quality wood panels from the USA, the increased tariffs have pushed up costs and are harming their competitiveness. Some downstream customers hence have recently begun to purchase poplar wood panels from neighboring countries of China, such as Russia and Ukraine, with plan to have them processed by us, in place of importing the expensive panels from the USA. That development is definitely in favor of the Group. As the poplar wood panels processed by the Group boast high quality, we believe, as they continue to gain market attention and more customers want to give them a try, the Group will see its customer base grow successively in the near future.

Chairlady's Statement

BUSINESS AND OPERATION REVIEW

The Group still can maintain the growth of profit amid the challenging economic environment. Last year, it continued to transform its business to enhance the value of its core wood optimization technology, shifting its business model gradually from mainly producing and selling less-shaved Processed Wood Panels to providing Wood Processing Procedure Service and selling stock of less-shaved Processed Wood Panels. For the year ended 31 December 2018, the revenue of the Group from the Rendering of Wood Processing Procedure Service amounted to RMB154.7 million, accounting for approximately 62.5% of the total revenue, whereas the revenue from sales of less-shaved processed panels amounted to RMB92.9 million, accounting for approximately 37.5% of the total revenue. For the whole year, the Group recorded a revenue of RMB247.6 million, representing an increase of 3.9% than last year, with the profit attributable to equity shareholders of the Company amounting to RMB69.6 million, representing an increase of 23.4% than last year. The Board has proposed to pay a final dividend of HKD0.02 per ordinary share for the year ended 31 December 2018 (2017: HKD0.02).

The Group is constantly optimizing its product quality and exerting in research and development to improve its patented impregnation fluids and production technology. In 2018, the Group received state-level recognitions such as the State Science and Technology Improvement Award (Second Class) * (國家科學技術進步獎二等獎) and the High and New Technology Enterprise Certificate. During the year, it was also granted a total of 33 wood-related patents, which testified its influence and market leadership in the wood optimization industry. As a pioneer in China's wood optimization sector, as well as the only wood optimization enterprise listed in Hong Kong, apart from working hard on raising its own research and development standard, and boosting production and sales of products, the Group is also devoted to supporting and participating in technical research activities in relation to the wood industry to help promote wider use of optimized wood in the market.

OUTLOOK

Looking ahead, the Group will continue to strengthen its capability in research and development of its products and impregnation fluid technology. Its aims are to increase the efficiency of existing production technologies and reinforce the market leadership of its processed wood products. At the same time, the Group also plans to expand production capacity, including increasing optimization processing equipments and manpower, as well as improve and widen the scope of application of its impregnation fluid. The Group will also focus more on providing wood optimization procedure service, strive to refine existing technology and enhance research and development capability. And, at opportune time, it will select a site to build its own impregnation fluid processing plant to expand production capacity and lay a firmer foundation for long term business development.

APPRECIATION

I would like to express my gratitude to the management team and our passionate staff for their efforts in and contribution to helping the Group implement its development strategy and operate business in the past year. My thanks also go to our loyal new and existing customers and business partners, as well as all shareholders for their support and trust for the Group. I am confident that, at our concerted effort, the Group will be able to gradually realize its vision of promoting the use of eco-friendly wood products and public awareness of the importance of protecting nature and the ecological environment, that deforestation could be reduced and our precious and beautiful primary forests could be protected.

Yim Tsun
Chairlady of the Board

28 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2018, the Group continued to engage in the business of sale of its self-produced less-shaved Processed Wood Panels (as defined below), as well as provide Wood Processing Procedure Service (as defined below) to customers who carry out purchasing of raw poplar wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customer for their poplar wood panels at a fee. The impregnation fluid and Wood Processing Procedure constitute core technologies of the Group and which can highlight the Group's intrinsic value and exceptional expertise. Furthermore, the service yields a higher gross profit margin than that of less-shaved Processed Wood Panels.

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

Less-shaved Processed Wood Panels

The Group's less-shaved Processed Wood Panels ("**less-shaved Processed Wood Panels**") are made of poplar wood panels that undergo the Group's Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimensions required and other specifications given by customers. Less-shaved Processed Wood Panels are generally used to produce floor planks, doors and furniture.

Rendering of Wood Processing Procedure Service

The Group provides Wood Processing Procedure Service ("**Wood Processing Procedure Service**") to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. Since the impregnation fluid is self-developed and the production cycle of Wood Processing Procedure is short, the cost of the service is notably lower than less-shaved Processed Wood Panels. It is therefore able to yield a higher gross profit margin than that of less-shaved Processed Wood Panels.

Recent Developments

In 2017, the Group's factory located in Handan (the "**Handan Factory**"), Hebei Province, the PRC, was informed by local government authorities that it had to dispose of its 10-tonne coal-fired boiler by the end of October 2017, in order to comply with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》) (the "**Air Pollution Control Work Plan**"). As a consequence, the Group ceased operation of its coal-fired boiler to comply with the air pollution control requirement. During the year ended 31 December 2018, the Group and the local government of Handan City reached a conclusion whereby the local government would assist in the construction of a natural gas pipeline for use by the Handan Factory and support the Group in the construction of a new natural gas boiler that would comply with the Air Pollution Control Work Plan. The Group expects to complete construction of the natural gas boiler and resume operation of the Handan Factory in the second quarter of 2019.

On 8 January 2018, Hebei AMS Wood Processing Co., Ltd. ("**Hebei AMS**"), a wholly-owned subsidiary of the Company, was awarded 2017 State Science and Technology Improvement Award (Second Class) * (國家科學技術進步獎二等獎) in respect of "Material Modification and Functionalization Technology Based on the Modification of Wood Cell * (基於木材細胞修飾的材質改良與功能化關鍵技術)" (the "**Award**"). The Award underscores the supreme recognition that the Group enjoys for its ability to research, develop and introduce to the market its technical applications for wood products. The Award also highlights the Group's capacity to make yet another important contribution to the advancement of the modern wood optimization field. Such a contribution can be considered the embodiment of its scientific research excellence and industry influence. The Directors believe that this Award will spur the Group to continue to put into practice its leading environmental protection philosophy and to become a leading enterprise in the wood optimization industry. For details of the Award, please refer to the announcement of the Company dated 10 January 2018.

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

In March 2018, the Company participated in the 17th China (Beijing) International Door Industry Exhibition* ("第十七屆中國(北京)國際門業展覽會") in order to expand its market share.

On 21 June 2018, the Company provided a corporate guarantee in favor of Hebei Guofu Hengxin Asset Management Co., Ltd.* ("河北國富恒信資產管理有限公司"), which granted a two-year long-term loan in the principal amount of RMB50.0 million to Hebei Kuaiyou Wood Products Manufacturing Co., Ltd.* ("河北快優木製品製造有限公司") ("**Hebei Kuaiyou**"). Hebei Kuaiyou is one of the major customers of the Group, and the provision of the corporate guarantee by the Company could strengthen long-term cooperation between the Group and Hebei Kuaiyou. For details of the provision of corporate guarantee, please refer to the announcement of the Company dated 21 June 2018.

On 10 August 2018, Jiangsu AMS entered into a short-term loan agreement with Hebei Overseas Listed Equity Investment Fund Co., Ltd.* ("河北境外上市股權投資基金有限公司") (the "**Hebei Overseas**") pursuant to which Jiangsu AMS agreed to lend to Hebei Overseas a one year short-term loan in the principal amount of RMB50.0 million at an interest rate of 10.0% per annum on the loan principal. Since the loan will provide interest income to the Group and the loan's interest rate is higher than the interest rate received by the Group by placing cash deposits with commercial banks in the PRC, the Directors consider the transaction is fair and reasonable and in the interest of the Company and its shareholders as a whole. For details of the provision of loan, please refer to the announcement of the Company dated 10 August 2018.

In November 2018, Hebei AMS was awarded Beijing Science and Technology Award (Third Class) * (北京市科學技術獎三等獎) in respect of "Key Technology and Application of Eco-friendly Wood Preservation"* (木材防腐處理綠色化關鍵技術與應用) (the **"Beijing Award"**). The Beijing Award further recognised the Group's contribution to China's scientific and technological progress, economic construction and social development.

USE OF PROCEEDS

The net proceeds from the placing (the "**Placing**") of the Company's shares on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 6 January 2014 (the "**GEM Listing Date**") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 31 December 2018 had been applied as follows:

	Planned use of proceeds from Placing as shown in the Prospectus from the GEM Listing Date to 31 December 2017 *(Note 1)* *HK$ million (Approximate)*	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2017 *HK$ million (Approximate)*	Utilised net proceeds from Placing for the year ended 31 December 2018 *HK$ million (Approximate)*	Unutilised net proceeds from Placing as at 31 December 2018 *HK$ million (Approximate)*
1. Strengthen the Group's research and development capacities	23.0	23.0	—	—
2. Continue to expand the Group's sales network	20.8	20.2	0.6	—
3. Expansion of the Group's production capacity	84.4	84.4	—	—
4. Repayment of loans	68.2	68.2	—	—
5. General working capital and other general corporate purposes	33.2	33.2	—	—
Total:	229.6	229.0	0.6	—

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

As at 31 December 2018, the Group's net proceeds from the Placing had been fully utilised.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by about RMB9.3 million or 3.9% from about RMB238.3 million for the year ended 31 December 2017 to about RMB247.6 million for the year ended 31 December 2018. The increase in revenue was mainly attributable to the increase in sales of previous years' stock of less-shaved Processed Wood Panels. Since the Air Pollution Control Work Plan became effective after October 2017, certain suppliers of raw poplar wood panels were forced to shut down or relocate their operations due to non-compliance with the Air Pollution Control Work Plan. As a result, certain customers were unable to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure. Such customers resorted to purchasing less-shaved Processed Wood Panels from the Group to fill their shortfalls. At the same time, they temporarily provided less raw poplar wood panels for the Group's further processing. As a consequence, revenue from the sale of less-shaved Processed Wood Panels increased, however, revenue from rendering of Wood Processing Procedure Service declined.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Year ended 31 December							
	2018				2017			
	Weight (Ton) (Note 1)	**Volume (m^3)**	**RMB'000**	**%**	Weight (Ton) (Note 1)	Volume (m^3)	RMB'000	%
Less-shaved Processed Wood Panels	**—**	**25,735**	**92,924**	**37.5**	—	17,684	62,042	26.0
Rendering of Wood Processing Procedure Service	**81,705**	**—**	**154,668**	**62.5**	93,770	—	176,288	74.0
	81,705	**25,735**	**247,592**	**100.0**	93,770	17,684	238,330	100.0

Note 1: The Group charges processing fees based on the weight of impregnation fluid consumed during the Wood Processing Procedure.

Analysis of average selling price of the Group's product and service provided are as follows:

	Year ended 31 December	
	2018 RMB	2017 RMB
Less-shaved Processed Wood Panels — average selling price per cubic meter	**3,611**	3,508
Rendering of Wood Processing Procedure Service — average selling price per ton consumed	**1,893**	1,880

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels increased by about RMB30.9 million, or 49.8% from about RMB62.0 million in 2017 to about RMB92.9 million in 2018. The increase was primarily due to the impact of the Air Pollution Control Work Plan as aforementioned. As a result, the Group recorded an increase in revenue from sales of less-shaved Processed Wood Panels. The sales volume of less-shaved Processed Wood Panels also increased by about 45.5% from about 17,684m^3 for the year ended 31 December 2017 to about 25,735m^3 for the year ended 31 December 2018.

The average selling price of less-shaved Processed Wood Panels increased slightly from RMB3,508/m^3 for the year ended 31 December 2017 to RMB3,611/m^3 for the year ended 31 December 2018.

Rendering of Wood Processing Procedure Service

The Group's impregnation fluid and Wood Processing Procedure are its core technologies which are difficult to replicate in a short time. Through providing Wood Processing Procedure Service, the Group can reveal its intrinsic value and enjoy a higher gross profit margin from the service than that of less-shaved Processed Wood Panels. Therefore, the Group enhanced its effort to render Wood Processing Procedure Service to customers who can carry out purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group during the year ended 31 December 2018. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,893 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the year ended 31 December 2018, as compared to the average processing fee of RMB1,880 per ton for the year ended 31 December 2017. As discussed under the paragraph headed "Revenue" above, due to the impact of the Air Pollution Control Work Plan, the Group recorded an increase in revenue from sales of less-shaved Processed Wood Panels but a decrease in revenue from rendering of Wood Processing Procedure Service. As a result, revenue derived from rendering of Wood Processing Procedure Service decreased by about RMB21.6 million or 12.3% from about RMB176.3 million for the year ended 31 December 2017 to about RMB154.7 million for the year ended 31 December 2018.

Cost of Sales

Cost of sales of the Group increased by about RMB15.6 million or 16.6% from about RMB93.9 million for the year ended 31 December 2017 to about RMB109.5 million for the year ended 31 December 2018. Since the unit cost of sale of less-shaved Processed Wood Panel was higher than that of the rendering of Wood Processing Procedure Service, the increase in sales volume of less-shaved Processed Wood Panels resulted in the increase in total cost of sales of the Group.

Gross Profit

Gross profit of the Group decreased by about RMB6.3 million or 4.4% from about RMB144.4 million for the year ended 31 December 2017 to about RMB138.1 million for the year ended 31 December 2018. The decrease in gross profit of the Group was mainly attributable to the decrease in revenue from rendering of Wood Processing Procedure Service for the year ended 31 December 2018 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2018	2017
	%	**%**
Less-Shaved Processed Wood Panels	**25.7**	23.6
Rendering of Wood Processing Procedure Service	**73.9**	73.6
Overall gross profit margin	**55.8**	60.6

Overall gross profit margin of the Group decreased from about 60.6% for the year ended 31 December 2017 to about 55.8% for the year ended 31 December 2018. Such decrease was mainly attributable to the increase in sales of less-shaved Processed Wood Panels which yields a lower gross profit margin of about 25.7% for the year ended 31 December 2018 than that of rendering of Wood Processing Procedure Service of about 73.9% for the year ended 31 December 2018.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels increased from about 23.6% for the year ended 31 December 2017 to about 25.7% for the year ended 31 December 2018. Such increase was mainly attributable to the slight increase in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,508/m^3 for the year ended 31 December 2017 to about RMB3,611/m^3 for the year ended 31 December 2018.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service remained stable for the years ended 31 December 2017 and 2018 which were about 73.6% and 73.9% respectively.

Other Income

Other income mainly comprises rental income from operation leases, income from government grants and interest income. The Group's other income increased by about RMB14.1 million from about RMB7.7 million for the year ended 31 December 2017 to about RMB21.8 million for the year ended 31 December 2018. The increase was mainly due to the increase in rental income and interest income and decrease in net loss on disposal of property, plant and equipment. The rental income increased by about RMB3.7 million from about RMB8.0 million for the year ended 31 December 2017 to about RMB11.7 million for the year ended 31 December 2018. The increase in rental income from operation leases was mainly because of the Group shifting its focus to rendering of Wood Processing Procedure Service with a higher gross profit margin and reduction in need of production facilities. Therefore, the Group has leased these idle facilities and workshops to one independent supplier and three independent customers since May 2017. In addition, the Group's interest income also increased by about RMB3.7 million from about RMB1.1 million for the year ended 31 December 2017 to about RMB4.8 million for the year ended 31 December 2018. The increase in interest income was mainly due to the increase in bank deposits interest income of about RMB1.9 million and a loan interest income of about RMB1.8 million derived from Hebei Overseas in 2018. For details of the provision of loan, please refer to the announcement of the Company dated 10 August 2018. On the other hand, due to change of production and sales pattern in 2017, the Group had disposed of certain unused production facilities and therefore recorded a disposal loss of about RMB4.5 million for the year ended 31 December 2017. However, no such disposal loss of fixed assets was recorded for the year ended 31 December 2018.

Selling Expenses

The Group's selling expenses increased by about RMB1.4 million or 51.9% from about RMB2.7 million for the year ended 31 December 2017 to about RMB4.1 million for the year ended 31 December 2018. Such increased was principally due to the increase in staff cost of salespersons and marketing and promotion expenses by about RMB1.1 million from about RMB1.9 million for the year ended 31 December 2017 to about RMB3.0 million for the year ended 31 December 2018 as the Group participated in the 17th China (Beijing) International Door Industry Exhibition* ("第十七屆中國(北京)國際門業展覽會") in March 2018 and the increase in the number of sales staff since May 2017 as the Group would like to seek for more potential customers to use its Wood Processing Procedure Services.

Administrative Expenses

The administrative expenses mainly included depreciation and amortisation charges, factory suspension losses, staff costs and research and development expenses. The Group's administrative expenses decreased by about RMB8.0 million or 10.7% from about RMB74.6 million for the year ended 31 December 2017 to about RMB66.6 million for the year ended 31 December 2018. The Group's staff costs decreased by about RMB1.9 million from about RMB9.7 million for the year ended 31 December 2017 to about RMB7.8 million for the year ended 31 December 2018. The decrease in staff cost was mainly attributable to the reduction in number of administrative staff because of the factory suspension of the Handan Factory. In addition, the business of rendering of Wood Processing Procedure Service also requires lesser administrative staff than that of production and sale of less-shaved Processed Wood Panels. The research and development expenses decreased by about RMB11.4 million from about RMB24.1 million for the year ended 31 December 2017 to about RMB12.7 million for the year ended 31 December 2018. Such decrease was mainly due to the research projects conducted in 2018 consumed less wood panels and raw impregnation fluids than the projects conducted in 2017.

However, the decrease in staff costs and research and development expenses were partially offset by the increase in depreciation and amortisation charges and factory suspension losses. The depreciation and amortisation charges increased by about RMB4.7 million from about RMB9.9 million for the year ended 31 December 2017 to about RMB14.6 million for the year ended 31 December 2018. The increase was mainly due to the increase in number of leased factory workshops and machineries since May 2017. The depreciation and amortisation charges of these leased assets were charged to administrative expenses. On the other hand, the temporary ceased operation of the Handan Factory in order to comply with the Air Pollution Control Work Plan had caused an increase in factory suspension losses of about RMB1.7 million from about RMB8.6 million for the year ended 31 December 2017 to about RMB10.3 million for the year ended 31 December 2018.

Finance Costs

The Group's finance costs decreased by about RMB4.2 million or 59.2% from about RMB7.1 million for the year ended 31 December 2017 to about RMB2.9 million for the year ended 31 December 2018. The decrease was mainly attributable to the decrease in interest expenses of about RMB1.5 million on long-term other loan entered into with a financial leasing institution in the fourth quarter of 2015 for selling some machineries used by the Handan Factory and then leasing back. In addition, due to the repayment of a bank loan amounted to RMB40.0 million in the first half of 2018, the Group's bank borrowing interest expenses decreased by about RMB1.6 million from about RMB3.6 million for the year ended 31 December 2017 to about RMB2.0 million for the year ended 31 December 2018.

Income Tax Expenses

The Group's income tax expenses increased by about RMB5.4 million or 48.2% from about RMB11.2 million for the year ended 31 December 2017 to about RMB16.6 million for the year ended 31 December 2018. The effective tax rate of the Group also increased from 16.6% for the year ended 31 December 2017 to 19.3% for the year ended 31 December 2018. The increases in income tax expenses and effective tax rate were mainly due to the fact that a PRC withholding tax of RMB2.5 million was accrued for a proposed distribution of RMB50.0 million out of the retained profits of a subsidiary of the Group incorporated in the PRC to its immediately holding company in 2019.

Profit for the Year

As a combined result of the factors discussed above, the Group's profit for the year increased from about RMB56.4 million for the year ended 31 December 2017 to about RMB69.6 million for the year ended 31 December 2018. The Group's net profit margin also increased from about 23.7% for the year ended 31 December 2017 to about 28.1% for the year ended 31 December 2018. Such increase was mainly due to the increase in revenue and other income and the decrease in administrative expenses and finance costs for the year ended 31 December 2018, which was partially offset by the increase in selling expenses and income tax expenses.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2018	2017
Current ratio	**8.52**	4.23
Gearing ratio*	**0.12**	0.21

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

The current ratio of the Group as at 31 December 2018 was about 8.52 times as compared to that of about 4.23 times as at 31 December 2017. The gearing ratio as at 31 December 2018 was about 0.12 as compared to that of 0.21 as at 31 December 2017. The increase in current ratio and the decrease in gearing ratio were mainly due to the repayment of bank and other loans and finance lease liabilities of about RMB50.3 million during the year ended 31 December 2018.

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

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

CAPITAL COMMITMENTS

The Group's capital commitments amounted to nil as at 31 December 2018 (31 December 2017: Nil).

PLEDGE OF ASSETS

At 31 December 2018, time deposits of RMB92,900,000 (31 December 2017:RMB50,760,000) have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000 (31 December 2017:RMB48,000,000), RMB58,000,000 of which were repaid by the borrower in January 2019 and as a result the corresponding time deposits pledges of RMB61,300,000 have been released at the same time . The remaining bank loan will be expired in May 2019.

At 31 December 2018, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB58.5 million (31 December 2017: RMB118.8 million) were pledged to banks for bank borrowings.

At 31 December 2018, the Group's property, plant and equipment with a carrying amount of Nil (31 December 2017:RMB23.5 million) has been pledged to a financial leasing institution for the other loan, due to the full repayment of this loan in June 2018.

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

CONTINGENT LIABILITIES

At 31 December 2018, time deposits of RMB92,900,000 (31 December 2017:RMB50,760,000) have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000 (31 December 2017:RMB48,000,000), RMB58,000,000 of which were repaid by the borrower in January 2019 and as a result the corresponding time deposits pledges of RMB61,300,000 have been released at the same time . The remaining bank loan will be expired in May 2019.

The Group continued to provide guarantee to one of its suppliers in 2018 because the supplier was in need of financing. It is the industry practise for these wood traders to make prepayments to their suppliers. While the supplier had limited ability in obtaining banking facilities, the Group decided to provide assistance to this supplier by providing guarantee for the facilities given by the bank to that supplier.

During the year ended 31 December 2018, the Company provided a corporate guarantee for a long-term other loan of Hebei Kuaiyou, a major customer of the Group, amounting to RMB50.0 million. This loan will be expired in June 2020 and the guarantee to this customer will be released at the same time. Please refer to the paragraph headed “Recent Development” above for further details.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2018.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 December 2018. The capital of the Company only comprises of ordinary shares.

As at 31 December 2018, all the bank and other loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

At 31 December 2018, there was no significant investment held by the Group (31 December 2017: Nil).

FOREIGN CURRENCY EXPOSURE

During 2018, the Group's monetary assets and transactions were mainly denominated in RMB and HK$. The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 31 December 2018, the Group employed 154 employees, the total staff costs amounted to RMB15.7 million (2017: RMB21.3 million). The Company maintains a share option scheme ("**Share Option Scheme**") for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this report, no option has been granted under the Share Option Scheme.

OUTLOOK

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

By focusing on rendering its Wood Processing Procedure Service, the Group will be able to yield a higher gross profit margin with its core technologies. In addition, the Group will be able to reduce the need for production facilities and make full use of its processing capacity.

DIRECTORS

Executive Directors

Ms. Yim Tsun (閻峻) ("**Ms. Yim**"), aged 47, is an executive Director and the chairlady of the Board. She is one of the founders of the Group and one of the controlling Shareholders. Ms. Yim was appointed as the executive Director on 6 June 2012. Ms. Yim is mainly responsible for the strategic planning, corporate culture, overall operation and management of the Group. Ms. Yim obtained a professional diploma in public relations and communications management from the School of Continuing and Professional Studies of The Chinese University of Hong Kong (香港中文大學專業進修學院) in January 2008. Prior to establishing the Group, Ms. Yim worked as a manager in the China marketing department of the China Overseas Communications Limited* (中國海外傳播公司) from May 2001 to September 2003; and as a director of exhibition department in Hong Kong Wen Wei Po Daily International Public Relations Consultant Co. Limited (香港文匯報國際公關顧問有限公司) from September 2004 to November 2011. Ms. Yim is also a director of certain subsidiaries of the Company.

Mr. Li Li (李理) ("**Mr. Li**"), aged 39, is an executive Director and one of the founders of the Group. Mr. Li was appointed as the executive Director on 23 July 2012 and the chief executive officer of the Company on 20 December 2013. Mr. Li is also a member of each of the remuneration committee and nomination committee of the Company. Mr. Li is mainly responsible for the strategic planning and operation of the Group. Mr. Li obtained a diploma in computer applications from Zhengzhou University (鄭州大學) in July 1998. Mr. Li has accumulated over seven years of experience in sales, business management and over two years of experience in the chemical industry. Prior to establishing the Group, Mr. Li worked as a business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from May 1998 to November 2003, whereby he was responsible for sales to sizeable customers. Mr. Li also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from April 2004 to August 2006. From September 2006 to June 2009, Mr. Li worked as a technical supervisor in Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司). Mr. Li is also a director of Jiangsu AMS.

Independent Non-Executive Directors

Mr. Zhang Dali (張達立) ("**Mr. Zhang**"), aged 59, is an independent non-executive Director. Mr. Zhang was appointed as the independent non-executive Director on 20 December 2013. Mr. Zhang is also the chairman of the nomination committee of the Company and a member of each of the audit committee and remuneration committee of the Company. Mr. Zhang obtained his diploma in control engineering and computer science from the Harbin Institute of Technology (哈爾濱工業大學) in January 1982. Mr. Zhang then obtained a master of science in forest operations from The University of Alberta in June 1989, and a doctoral degree from the University of Wisconsin-Madison in December 1992. Mr. Zhang has accumulated over 15 years of professional experience in forestry, wood products and paper industries. Prior to joining the Group, Mr. Zhang was the managing director of RISI's, Inc. in Asia from March 2010 to February 2012 and a vice president in the corporate development at Norske Skog (Hebei) Paper Co., Ltd. during February 2008 to February 2010, where he was responsible for corporate development. Mr. Zhang also worked for more than 11 years with the Pöyry Management Consulting between September 1996 to February 2008, and held various positions with Pöyry offices in Singapore, New York and Shanghai, where he was responsible for business and marketing strategies. Mr. Zhang rejoined Pöyry Management Consulting from April 2014 to January 2018, as director and head of China Operation. Mr. Zhang is currently the Senior Consultant of Vision Hunters.

Biographical Details of Directors

Mr. Pu Junwen (蒲俊文) ("**Mr. Pu**"), aged 54, is an independent non-executive Director. Mr. Pu was appointed as the independent non-executive Director on 20 December 2013. Mr. Pu is also the chariman of the remuneration committee of the Company and a member of each of the audit committee and nomination committee of the Company. Mr. Pu obtained a bachelor in pulp and paper engineering from the Shaanxi University of Science and Technology (陝西科技大學, formerly known as 西北輕工業學院) in July 1986. Prior to joining the Group, Mr. Pu was involved in academic and research work for the College of Materials Science and Technology of Beijing Forestry University (北京林業大學材料科學與技術學院) where he was a professor from January 2008 to December 2011 teaching classes on chemical processing technique for forestry production. Mr. Pu has expertise in research work relating to pulp technologies and usage of cellulose and its derivatives. Mr. Pu has also held positions in paper making or forestry-related committees.

Mr. Lau Ying Kit (劉英傑) ("**Mr. Lau**"), aged 45, is an independent non-executive Director. Mr. Lau was appointed as the independent non-executive Director on 20 December 2013. Mr. Lau is also the chairman of the audit committee of the Company. Mr. Lau is currently an independent non-executive director of Xiezhong International Holdings Limited (Stock Code: 3663), Kingdom Holdings Limited (Stock Code: 528), United Strength Power Holdings Limited (Stock Code: 2337) and Sinco Pharmaceuticals Holdings Limited(Stock Code:6833), all listed on the Main Board of the Stock Exchange. Mr. Lau is also a director of Adex Mining Inc. (Stock Code: ade), a company listed on the TSX Venture Exchange in Canada from June 2011 to October 2017. Mr. Lau was the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 3683), a company listed on the Main Board of the Stock Exchange from October 2010 to November 2017. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and Mr. Lau obtained a master's degree in finance from the City University of Hong Kong in November 2008. Mr. Lau has extensive experience in finance and accounting in the PRC and Hong Kong.

CORPORATE GOVERNANCE PRACTICES

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

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended 31 December 2018.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, for the year ended 31 December 2018, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period for the year ended 31 December 2018.

THE BOARD OF DIRECTORS AND DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The Board currently consisted of five Directors, comprising two executive Directors and three independent non-executive Directors. During the year ended 31 December 2018, seven Board meetings were held. Details of the attendance of the Directors are as follows:

Name of Directors	Attendance/ Number of Board Meetings
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	7/7
Mr. Li Li *(Chief Executive Officer)*	7/7
Independent Non-executive Directors	
Mr. Zhang Dali	7/7
Mr. Pu Junwen	7/7
Mr. Lau Ying Kit	7/7

During the year ended 31 December 2018, the Company held one annual general meeting on 17 May 2018, being 2017 annual general meeting of the Company (the "2017 AGM").

2017 AGM	Number of Attendance
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	1/1
Mr. Li Li *(Chief Executive Officer)*	1/1
Independent Non-Executive Directors	
Mr. Zhang Dali	1/1
Mr. Pu Junwen	1/1
Mr. Lau Ying Kit	1/1

RESPONSIBILITY OF THE BOARD

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2018, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2018, the Directors participated in the following continuous professional development:

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

Notes:

1. Professional training organised by professional organisation namely "Execution on Listing Rules and Law Enforcement by SFC" and "Compliance on Listing Rules" were arranged by the Company to update the Directors' knowledge.

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

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2018, the roles of the chairlady and the chief executive officer are separate. Ms. Yim Tsun was the chairlady while the role of the chief executive officer was performed by Mr. Li Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of Appointment of Independent Non-executive Directors

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

Independent Non-executive Directors

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee of the Board has reviewed the consolidated results of the Group for the year ended 31 December 2018.

During the year ended 31 December 2018, two audit committee meetings were held to review and discuss with the external auditors and the management of the Company the accounting principles and practices adopted by the Group, the draft financial statements for the six months ended 30 June 2018 and the year ended 31 December 2018 as well as risk management, internal control systems, the effectiveness of the internal audit function and other financial reporting matters. The attendance records of individual committee members are set out below:

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

Remuneration Committee

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

During the year ended 31 December 2018, one remuneration committee meeting was held to, amongst others, review and approve the remuneration packages of the Directors and senior management of the Company. The attendance records of individual committee members are as follows:

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

Nomination Committee

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

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 28 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

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

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

During the year ended 31 December 2018, one nomination committee meeting was held. The attendance records of individual committee members are as follows:

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

Directors' and Auditors' Responsibility for the Consolidated Financial Statements

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

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

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

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, KPMG, for the year ended 31 December 2018, is set out as follows:

Nature of Services	Fee paid/ payable RMB'000
Annual audit service	3,200

The fee charged by KPMG in respect of annual audit service for the year ended 31 December 2018 amounted to RMB3.2 million.

COMPANY SECRETARY

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

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

Ms. Ho is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Ho continues to study professional course of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. Ho is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 3.29 of the Listing Rules, Ms. Ho took more than 15 hours of relevant professional training for the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

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

To convene an EGM

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

Procedures by which enquiries may be put to the Board

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

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

Procedures for putting forward proposals at general meetings

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

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

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

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

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

Communication with Shareholders

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

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

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 28 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTOR RELATIONS

There was no change in the memorandum and articles of association of the Company during the year 31 December 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

ABOUT THIS REPORT

This report is the 3rd Environmental, Social and Governance Report prepared by China Wood Optimization(Holding) Limited (the "**Company**") and its subsidiaries (collectively known as "**China Wood**", the "**Group**" or "**we**").

This report focuses on our management policies, measures and achievements in environmental, social and governance areas, with a view to strengthening our engagement and relations with stakeholders. The reporting period is from 1 January 2018 to 31 December 2018 (the "**Reporting Period**"). Unless otherwise stated, this report includes only our major businesses, namely the production of impregnation liquids using biosynthetic resin technology for raw wood panels, also known as wood processing technology, for environmental, social and governance strategy and performance. In preparing this report, we complied with the "Environmental, Social and Governance Reporting Guidelines" as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), disclosing the sustainability performance that was important in the guidelines and related to the business of the Group during the Reporting Period.

To meet the guidelines, the Group has commissioned independent consultants to provide professional advice and allowed our stakeholders to fully participate. The information disclosed in this report are the most concerned issues of our major stakeholders. According to the requirements of the Stock Exchange, when we present information, we are committed to using Materiality, Quantitative, Balance and Consistency as the basis for this report. In the long run, we promise to disclose more comprehensive information regarding environmental, social and governance to enhance the transparency of our sustainability performance.

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

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

AWARDS AND RECOGNITION

Date	Description
January 2018	Hebei AMS won the 2017 State Science and Technology Improvement Award (Second Class)* (國家科學技術進步獎二等獎) from the State Council of the People's Republic of China
February 2018	Jiangsu AMS was recognised by the Public Security Bureau of Huai'an as an "Advanced Entity" for internal security works in the city for 2017
February 2018	Jiangsu AMS was given the "Development Contribution Award" for 2017 by the Party Working Committee/Management Board of Jiangsu Huai'an Industrial Park
April 2018	Jiangsu AMS was named as the "Home to Model Workers" by Jiangsu Provincial Federation of Trade Unions
April 2018	Jiangsu AMS was admitted as a council member to the Technology Innovation Alliance of Wood/Bamboo Industry
June 2018	Worked with Nanjing Forestry University to establish the "Practical Training Base of the College of Furnishings and Industrial Design"
September 2018	China Wood was invited as the only Chinese company to the Ninth European Conference on Wood Modification (ECWM9) and shared its research on the drying characteristics of urea-resin-soaked poplar

ENTERPRISE CULTURE

MISSION

Our mission is to become an energy-conserving and environment-friendly enterprise, valuing environmental protection actively and meeting social responsibility with practical actions, so as to lead a green and healthy future.

CORE VALUES

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

Sustainability
- the road to sustainable development allows us to operate sustainably

Innovation
- actively conduct research and development work, and continue to review and improve the management model

Enthusiasm
- seeking opportunities for improvement continuously, hoping to become better

Integrity
- we are committed to meeting our commitments to employees, customers, and other communities

SUSTAINABLE DEVELOPMENT VALUES

The Group is committed to bringing positive impacts and creating long-term value to all stakeholders by optimizing its product quality and safety and improving its service standard through innovative technology and research development. Meanwhile, we also attach great importance to environmental protection and resource management. By upholding a management approach based on our sustainable development concept, we undertake to address our environmental, social and governance issues in an effective and responsible manner. We have developed four sustainable development concepts:

1 Social Responsibility

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

2 Low Carbon & Energy Saving

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

3 Green Sustainability

Through the high-value use of artificial fast-growing forest timber and the sustainable development of artificial fast-growing forest, we can reduce the impact of illegal logging and protect precious natural forest resources. The 50-200 years of growth for natural forests not only enriches the market for solid wood timber, but also greatly improves the utilization rate of natural timber.

4 Environmental Protection

The world's leading environmental friendly production vision enables China Wood to achieve high level responsibility of "zero pollution" and "zero destruction" from production and processing to product use.

COMMUNICATION WITH STAKEHOLDERS

Through years of operation, we understand the significance of stakeholders' opinions, with our steady growth over the years depending on their support and trust. The involvement of stakeholders allows us to fully understand their views and expectations, which effectively helping us develop existing and future solutions to sustainable development. Going forward, we will continue to engage with all groups of stakeholders under the direct influence of our operations actively via formal or informal channels to understand their thoughts and concerns. Our stakeholders include our employees, investors and shareholders, customers, government authorities and regulators, suppliers, etc.

For different groups of stakeholders, we use a variety of channels as platforms for communication, including questionnaire, annual general meetings, phone calls, site visits, employee performance evaluation, company team activities, meetings and company website.

Group of stakeholders	Means of communication
Employees	✓ Employee performance evaluation ✓ Regular department briefings ✓ Regular safety meetings ✓ Diversified training ✓ Team building activities ✓ Recreational competitions ✓ Regular union activities ✓ Questionnaires
Customers	✓ WeChat official account ✓ Communications in daily operations ✓ Regular meetings ✓ Questionnaires ✓ Customers review process
Suppliers	✓ Annual reviews of supplier performance ✓ Regular meetings ✓ Site visits ✓ Questionnaires
Investors and shareholders	✓ Annual general meetings and other general meetings ✓ Corporate communications ✓ Interim and annual reports ✓ Result announcements ✓ Company website
Government authorities and regulators	✓ Communications in daily operations ✓ Regular meetings ✓ Questionnaires
Other business partners	✓ Communications in daily operations ✓ Regular meetings ✓ Questionnaires

MATERIALITY EVALUATION

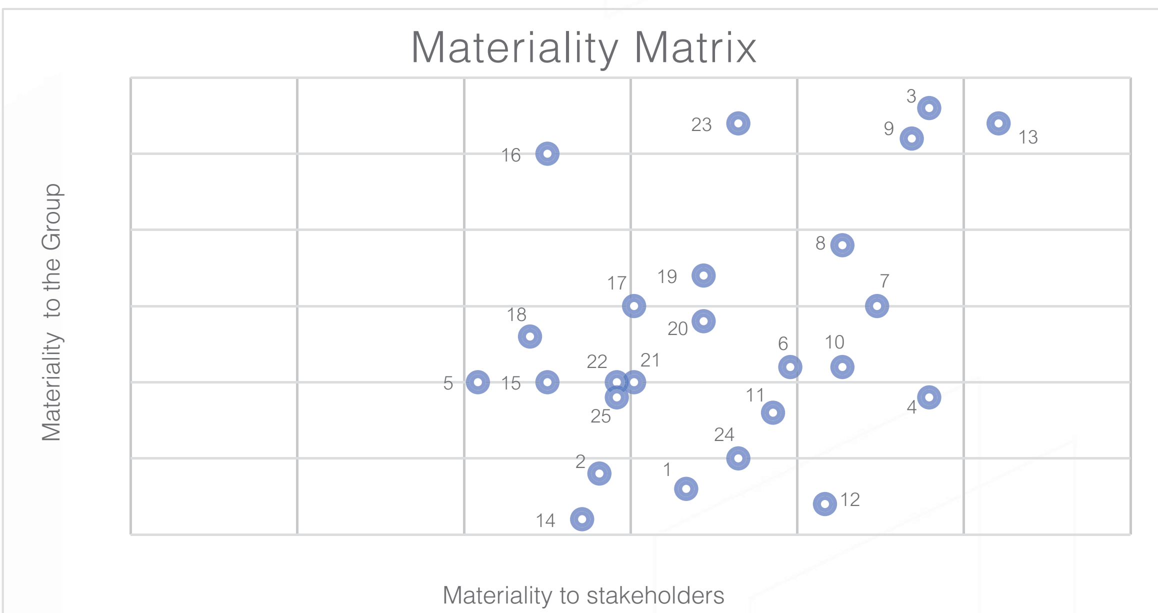
In the process of materiality evaluation, we determine material issues related to the Group mainly by reference to the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange and make relevant disclosures in this report.

We use various methods, including online questionnaire survey, to invite stakeholders to address the materiality of each sustainable development issue and feedback on the Group's sustainable development policies to consolidate the outcome of communications with stakeholders and determine the overall materiality of each issue.

The conclusion derived from Steps 1 and 2 is submitted to the senior management of the Group for discussion to determine the material issues for this report.

EVALUATION OF MATERIALITY MATRIX

Through our engagement with stakeholders, we have identified 25 material issues on sustainable development relating to our business, which are prioritised on the basis of their materiality to the Group and to stakeholders. We formulated a materiality matrix below, which clearly shows the issues of greatest concern to stakeholders and areas that require more of our attention in future development.



Quality of working environment	Product and service responsibility	Environmental protection and green operation	Operational practices	Community contribution
1) Diversity and equal opportunity 2) Employee turnover rate 3) Occupational safety and health 4) Employee training and development 5) Preventing child and forced labour 6) Employee relationships and engagement 7) Employee welfare / recreation	8) Product safety 9) Product and service quality 10) Complaint resolution 11) Intellectual property right 12) Customer privacy 13) Technological research and development	14) Waste water discharges 15) Greenhouse gas emissions 16) Air emissions 17) Treatment of hazardous and non-hazardous wastes 18) Energy and water saving 19) Use of natural resources 20) Green procurement	21) Supplier selection process 22) Anti-fraud and corruption 23) Disaster contingency plans	24) Participation in charitable activities 25) Philanthropic donations

OUR APPROACH TO SUSTAINABLE DEVELOPMENT

Through the above evaluation of materiality matrix, we have identified the following five key areas as the Group's material issues on sustainable development. In the future, the Group will continue to review its sustainable development policies with a focus on such identified material issues, which are explained in details under the corresponding chapters in this report.

Five key issues	Corresponding chapter/module
Technological research and development	State Science and Technology Improvement Award (Second Class) The Ninth European Conference on Wood Modification (ECWM9) Technical improvement
Occupational safety and health	Occupational health and safety Comprehensive safety management system Dust and noise management Safety guidelines and training
Product and service quality	Product health and safety Features of "Salicaceae" Qualified control Technical improvement
Disaster contingency plans	Occupational health and safety Comprehensive safety management system Dust and noise management Safety guidelines and training Complete contingency plans
Air emissions	Environmental protection — "AMS" Summary of sustainable development performance Environmental evaluation for products

SUSTAINABLE AND EFFECTIVE INTERNAL CONTROL AND RISK MANAGEMENT

The Group understands the importance of internal control and risk management as a good internal control and risk management system is critical to the sustainable development of a company. The Board of Directors of the Group has constant oversight on our internal control system, risk assessment and management, identifying factors with potential adverse impacts on the Group's business, including operating, financial, compliance and environmental protection risks, hence establishing risk controls accordingly. In addition, the Audit Committee of the Group also continuously reviews our internal audit and risk management activities, ensuring an effective internal control system is in place. To further improve the effectiveness of our risk management and internal control system, an independent service provider has been engaged to conduct an annual review of our risk management and internal control system, and corrective actions have been taken pursuant to its recommendations. We intend to constantly supervise and improve our internal control and risk management system in line with our sustainable development policies, so as to further pursue the Group's sustainability aspirations.

PRODUCT HEALTH AND SAFETY

We attach great improvement to product quality and corporate reputation. Therefore, we try our best to ensure our product quality are up to international industrial standards through constant quality control and technical improvement in producing innovative green and eco-friendly wood products. Regarding product responsibility, laws and regulations applicable to our business and with a significant impact include the Product Quality Law of the People's Republic of China, the Law of the People's Republic of China on Protection of Consumer Rights and Interests and other national or local laws and regulations, which emphasise on the supervision and management of product quality, as well as the protection of lawful rights of consumers. In the ordinary course of business, we have tried our best to strictly comply with applicable requirements. Our policies and works performed on product responsibility and quality supervision are detailed below.

During the Reporting Period, to the best of the Directors' knowledge, the Group did not receive any complaints from any regulator or any other parties regarding any product responsibility or quality, or suffer any significant administrative sanction or penalty as a result of any breach of applicable laws or regulations. As for product recall, the Group had no products requiring a recall on account of safety and health.

We have implemented stringent quality controls with quality standards made by reference with international certification framework and requirements, while introducing the quality control system standard ISO 9001 to establish a comprehensive quality control system. We have designed new and efficient systems for production logistics, raw material examination, finished product examination, quality control, warehousing, wood optimization and other related processes. For the wood optimization system in particular, we succeed in achieving "zero emission" in production by installing automated machines and running production lines efficiently, which not only reduced our demand for human resources, but also boosted our processing efficiency and product quality.

FEATURES OF "SALICACEAE"

Our product "Salicaceae" is a quality solid wood product, which features the natural pattern of solid wood, as well as better performance in terms of moisture, mould, moth, crack and deformation resistance resulting from our specialised wood optimization technology. Since its launch, "Salicaceae" has been promptly used for downstream production of solid wood flooring, furniture, doors, windows, loudspeaker boxes, indoor and outdoor cabins.

- 100% pure solid wood: Domestic and foreign quality fast-growing forest timber is used and treated with special drying optimization process.
- Durability: Degradation resistance is improved significantly by delaying the degradation of solid wood through optimization, which helps extend the useful life of wood products.
- High temperature resistance: Salicaceae has strong resistance of high temperature and dose not crack or deform easily when facing heat source.
- Crack and deformation resistance: Salicaceae has excellent resistance of crack and deformation, which effectively reduces the cost of after-sale services for furniture manufacturers.
- Moisture, moth and mould resistance: Salicaceae can resist damage not only by micro-organisms, but also by gray and blue stains, which can reduce problems arising from wood in usage and storage.
- Corrosion resistance: Treated with biological and eco-friendly technology, Salicaceae is non-toxic, pollution-free and corrosion resistant, making it a good base material for interior improvement and furniture.

QUALITY CONTROL

To ensure product quality fullfills our requirements, products are sent to designated quality supervision and testing centers regularly and tested by qualified and independent third party testing agency for, among others, water absorption, moisture content, air-dry density, bending strength, modulus of elasticity, hardness and formaldehyde emission. The formaldehyde emission of wood products handled by the Group is at a low level (less than 0.5mg/L) and complies with the E0 level of formaldehyde emission standards. We also conduct testing according to the Soaking Paper Laminated Wood Flooring (GB/T18102-2007) Standards and Wood Flooring Heating LY/T1700-2007 Standards.

STATE SCIENCE AND TECHNOLOGY IMPROVEMENT AWARD (SECOND CLASS)* (國家科學技術進步獎二等獎)

On 8 January 2018, Hebei AMS was granted the "2017 State Science and Technology Improvement Award (Second Class)* (國家科學技術進步獎二等獎)", which highly recognises our research and development capability and market position in product and technology application. Our award-winning project, "Critical Technology of Material Improvement and Functionalization Based on Wood Cell Modification", which enables the effective and high value-added utilization of low quality wood of planted forest by significantly improving its macro material properties through the modification of molecular structure of cell wall layers and adjustment to the cell micro-structure, addressing various problems of planted forest wood, such as low density, low strength, vulnerability to deformation, decay and damages by worms. The State Science and Technology Improvement Award is one of the five major State Science and Technology Awards established by the State Council. It is given to Chinese citizens and organizations making innovative contributions in the process of technological research, development and innovation, promotion of the application of advanced scientific and technological achievements, facilitation of the commercialization of new and high technologies, and completion of major sci-tech programmes and projects. The award ceremony was held at the Great Hall of the People and is the highest caliber ceremony for science and technology hosted by the Chinese Government. This State Science and Technology Improvement Award (Second Class) * (國家科學技術進步獎二等獎) marks another milestone for the Group.

THE NINTH EUROPEAN CONFERENCE ON WOOD MODIFICATION (ECWM9)

The Ninth European Conference on Wood Modification (ECWM9) was held in Anaheim, Netherlands in September 2018, where the Group, as the only Chinese company demonstrated China's efforts in wood modification and environmental protection to the world with our technology and products of high value utilization of wood. The conference is a major global event for wood modification technology, providing an excellent exchange platform for all research institutes and the industry and allowing us to better understand the latest developments in wood modification. It covered heat treatment, hot oil treatment, mechanical heat treatment, chemical treatment, soaking modification and emerging technologies (microwave, radio frequency, plasma, enzyme, etc).

TECHNICAL IMPROVEMENT

The Group's proprietary impregnation liquids are key materials for the wood processing procedure. As a newly established high-tech enterprise, the Group improves our product quality constantly, as well as improving our impregnation liquids and production technology. Thanks to the unremitting efforts of our research and development ("**R&D**") department, as of 31 December 2018, we had a total of 54 patents. Our R&D team focuses on developing, adjusting and improving impregnation liquids to further improve product quality and performance, which also helps to reduce production costs. Looking forward, we will recruit more researchers laboratory technicians and purchase advanced R&D equipment and materials, so as to strengthen our product development, increase operating efficiency and save costs.

CUSTOMER SERVICE AND PRIVACY

The Group constantly communicates with customers to ensure their needs and expectations are understood and satisfied. To continuously improve our products and services, the Group conducts regular customer satisfaction surveys to gain insight into their satisfaction with our products. Our sales department is responsible for receiving and handling complaints from customers in a timely manner and following up with customer feedback, so as to raise the level of customer satisfaction and product quality management. In respect of privacy, we have signed a confidentiality agreement with each of our employees with access to confidential or sensitive information in day-to-day operations, so that they are clearly aware of their responsibility for confidentiality. Moreover, our IT department has installed encryption software on our business computers to prevent any unauthorized access to all information without encryption by competent personnel, thus minimizing the risk of unauthorized divulgence of confidential or sensitive information, including customer information.

ENVIRONMENTAL PROTECTION — "AMS"

Forests and trees make vital contributions both to people and the planet, providing clean air, conserving biodiversity, and responding to climate change. According to the State of the World's Forests 2018 issued by the Food and Agriculture Organisation of the United Nations, forests act as a source of food, medicine and fuel for more than a billion people, hold more than three-quarters of the world's terrestrial biodiversity, and also provide many products and services that contribute to socio-economic development. The Group has been promoting the idea of "loving the beautiful big primitive forest", creating a green, environmentally friendly and ecological approach to wood production. We focus our investments on wood optimization and work on modification research for better utilization and functionality of wood, in a bid to achieve the goal of sustainable, renewable and green development.

Our products are green, new environmentally-friendly solid wood, which use poplar and other traditional low value-added fast-growing forests as raw material. These woods are easily perishable, deformed and cracked. But through our unique optimization technology, we are able to improve their density, hardness, bending strength and elasticity, as well as the durability, slow combustion ability, deformation resistance and crack resistance. Our technology helps to improve the functionality of wood and extend its useful life, enabling us to produce high value-added optimized wood that can replace natural solid wood panels. Processed wood can substitute many types of natural solid wood and cater to a range of applications such as furniture and interior renovation. As our products can be used as an ideal alternative to high-end natural logs, they can effectively reduce the deforestation This not only contributes to the purpose of forest protection, but also mitigates the negative impact of climate change on people and the planet.

The Group attaches great importance to good environment management and strives to protect the environment so as to perform its share of social responsibility. As a leader in the timber optimization industry, we uphold the green and low-carbon production and operation model as well as procurement principles, while strictly complying with laws and regulations on environmental protection, such as the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste (中華人民共和國固體廢物污染環境防治法), etc.

In addition, we have obtained the ISO 14001:2015 certification of the environmental management system and have formulated environmental protection guidelines and objectives, as well as corresponding implementation policies. We have stringently implemented these policies as required under the environment management system and standards, so as to recycle and reuse resources and reduce wastes.

During the Reporting Period, to the knowledge of the Directors, the Group did not receive complaints from any regulatory agency or any other person regarding any environmental aspects. Also, there were no major environmental accidents caused by its manufacturing activities. During the Reporting Period, the Group has not been subject to major administrative sanctions or penalties for violating environmental laws or regulations.

SUMMARY OF SUSTAINABLE DEVELOPMENT PERFORMANCE

Our environmental performance during the Reporting Period is summarized below.

	2018	2017	
Air Emissions[1]			
Nitrogen Oxides (NO_X)	**29.46**	N/A	Kilograms
Sulfur Oxides (SO_X)	**0.57**	0.95	Kilograms
Particulate Matters (PM)	**2.17**	N/A	Kilograms
Greenhouse Gas			
Total Greenhouse Gas Emissions	**723.37**	4,521.09	Tonnes of carbon dioxide equivalent
Direct Emission (Scope 1)	**103.97**	172.50	Tonnes of carbon dioxide equivalent
Indirect Emission (Scope 2)	**1,436.87**	5,166.06	Tonnes of carbon dioxide equivalent
Greenhouse Gas Removal — Tree plantation (Scope 1)	**817.47**	817.47	Tonnes of carbon dioxide equivalent
Intensity of Greenhouse Gas Emissions[2]	**6.70**	32.51	Kilograms of carbon dioxide equivalent/square meter
Non-hazardous Wastes[3]			
Total Production and disposal of Non-hazardous Wastes	**0.77**	1.77	Tonnes
Intensity of Non-hazardous Wastes[2]	**7.09**	12.73	Grams/square meter
Energy Consumption			
Total Energy Consumption	**2,215.39**	7,505.51	Thousands of Kilo Watts Hour
Purchased electricity	**1,859.44**	6,908.36	Thousands of Kilo Watts Hour
Unleaded Petrol	**355.95**	597.15	Thousands of Kilo Watts Hour
Intensity of Energy Consumption[2]	**0.02**	0.05	Thousands of Kilo Watts Hour/square meter
Water Consumption[4]			
Total Water Consumption	**19,389.00**	12,672.00	Cubic meter
Intensity of Water Consumption	**0.26**	0.12	Cubic meter/Square meter

1 During the Reporting Period, we refined our statistical method for automobile-related data to additionally capture automobile mileage data, which was then used to calculate the data of Nitric Oxides (NO_X) and Particulate Matters (PM).

2 The emission intensity data is based on the gross floor area of the Group's operation sites in Hong Kong, Hebei and Jiangsu (excluding leased out areas).

3 The Group's business operation does not involve any use of packaging materials or generation of hazardous wastes.

4 Water consumption only covers the factory in Jiangsu as relevant data is not available for the factory in Hebei, which mainly uses well water, as well as for Hong Kong office, which uses shared water utility. During the Reporting Period, we did not have any significant difficulty in sourcing water.

EMISSION MANAGEMENT

As the Group is mainly engaged in wood processing business, we did not generate significant emissions. Nonetheless, we remain committed to minimizing the adverse impact of our operations on the environment by improving our operating efficiency and implementing environmental protection measures.

Vehicles owned by us will generate air and greenhouse gas emissions in trace amount. In addition, our emissions mainly come from the power consumption by production equipment, which emits greenhouse gases indirectly through the use of electricity. Measures to reduce greenhouse gas emissions are described under the section entitled “Energy Saving and Emission Reduction Measures”.

Regarding sewage discharge, we will also conduct sampling inspections at the sewage outlets to ensure compliance with sewage discharge standard, which include indicators such as chemical oxygen demand, suspended solids, and ammonia nitrogen.

WASTE MANAGEMENT

As the best way to prevent pollution is reducing waste from the source, recycling and reuse will be given high priority. The Group’s business is mainly wood processing, in which the raw materials used are the soaking fluid developed from our own research. To reduce wastes, we have embedded a recycling system of impregnation liquids into the production process to recycle impregnation liquids left from the process and reuse related containers, hence achieving “zero waste” throughout the wood processing procedure.

Our main non-hazardous waste is office paper. As far as the use of paper is concerned, we have taken a range of measures to reduce paper consumption, such as using electronic system to save files, requiring double-sided printing or photocopying for documents and materials used in the office. Furthermore, employees are also encouraged to bring their own cups and avoid the use of paper cups. Wastes that cannot be recycled will be entrusted to local garbage collection agencies for handling, ensuring all wastes are handled properly.

ENERGY SAVING AND EMISSION REDUCTION MEASURES

During the Reporting Period, the Group reduces its greenhouse gas emissions and resource consumption by taking the following management actions:

Our office building is designed to maximize the use of natural lighting.

REDUCING ENERGY CONSUMPTION

- Post reminders beside power switches, power buttons and awareness posters to encourage employees to save energy;
- Encourage employees to turn off idle devices such as computers and lighting equipment, if unnecessary or after work;
- Install LED or energy efficient lamps to reduce power consumption;
- Expand the use of natural lighting;
- When replacing old electrical appliances or setting up new business, purchase electrical devices with higher energy efficiency.

REDUCING WATER CONSUMPTION

- Educate employees on the importance of water conservation and raise their awareness in this regard;
- Post messages and notes on water conservation to remind employees not to waste water;
- When any leaks occur on any equipment, perform maintenance procedures immediately to avoid waste.

By comparing the energy data for the past two years, we found that the Group's energy consumption decreased by 70 percent from that of last year, mainly attributable to the fact that:

1. In order to reduce air pollution, the Group actively responded to the environmental policies with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》), implemented by the Chinese government. The Group's production base in Wei County, Handan City, Hebei Province, has dismantled coal-fired boilers and was negotiating with the local government to lay natural gas pipelines and switch to gas boilers. As a result, the factory of Hebei AMS did not carry out any production activities during the Reporting Period.

2. Due to our business transformation, the main business of production and sales of processed wood products was gradually changed to render Wood Processing Services so as to enhance the core technical value of the Group's wood optimization. The transformation reduced the power consumption of Jiangsu AMS's factory significantly.

ENVIRONMENTAL ASSESSMENT ON PRODUCTS

The use of impregnation fluids has a significant impact on the Group's business, meanwhile, we also pay high attention to the impact of the impregnation fluids on the environment. Our products pass the 175 substances test on "Substances of Very High Concern, SVHC" under the European REACH[5] Regulation (Regulation (EC) No. 1907/2006). The regulation was promulgated by the European Parliament and the European Commission to manage the safety of chemicals and their potential impact on the human body and the environment. The test showed that impregnation liquids have no negative impact on the environment.

The wood process procedure and the production of impregnation liquids involve the use of chemicals, including formaldehyde and urea-formaldehyde glue. However, we limit our use of chemical solutions and impregnation liquids during production, ensuring all impregnation liquids will be impregnated and absorbed into treated wood products, and preventing the production and processing procedure from causing any adverse impact on the environment or product health and safety. No toxic, harmful or restricted chemicals have been used in our operations.

5 REACH refers to the regulation on "Registration, Evaluation, Authorisation, and Restriction of Chemicals".

OCCUPATIONAL HEALTH AND SAFETY

During the Reporting Period, we continuously adhere to “safety first, prevention-oriented, and comprehensive governance” as our principles, and integrate the Group’s “people-oriented” concept into safe production.

We are committed to complying with the “Occupational Disease Prevention Act” (《職業病防治法》), the “Safe Production Law of the People’s Republic of China” and the “Fire Protection Law” (《中華人民共和國安全生產法》), the Fire Protection Law (《消防法》) and other applicable regulations on occupational disease prevention. The Group clearly understands that these laws and regulations are made to enhance production safety, prevent and reduce production accidents, protect the safety of lives and properties and promote the robust development of economy and society, which are consistent with our values on safety. Therefore, we have established a suite of safety policies for safe production, which are further discussed below.

We have established a comprehensive safety management system and contingency plans, providing employees with safety guidelines and training on various working processes and conducting regular safety checks on various equipment, in order to improve our safety management standard. During the Reporting Period, we also arranged safety engineers to perform risk assessment on occupational safety, and continued to actively rectify any defect, while promoting occupational health and safety information to all employees. We arranged regular medical checks for employees, ensuring them are able to work at their best.

During the Reporting Period, we successfully achieved the goal of “zero accidents”. It is not easy to successfully create a “zero accidents” working environment. In the future, we will continue to aim for this. At the same time, we will abide by the laws and regulations of the country and related departments, and major policies, to build a safe, healthy and sustainable working environment.

COMPREHENSIVE SAFETY MANAGEMENT SYSTEM

The responsibility system for safety production is a system built on our safe work policy and safe production regulations. It is the core to our management system of safe production and employee protection.

To ensure production safety in line with national laws, regulations and rules on safe production, we have formulated the Safety Management System to clearly define the responsibilities of various departments and roles for safe production, with a view to ultimately achieving the "Zero Accidents" working environment by closing safety management loopholes through standardized management. The System requires us to:

- comply with national laws, regulations and rules, as well as all internal rules and provisions, while performing our duties;
- provide security division personnel with regular training on safe production knowledge to offer on-site guidance for safety management;
- carry out targeted checks on areas including dust removal towers in workshops, fire pump rooms and fire cisterns, equipment and electrical appliances, evacuation access and forklift operations;
- immediately rectify, review, follow-up with, inspect and accept any item found to fail to meet our requirements during fire safety checks;
- conduct more inspections to ensure the normal production of the Company by preventing fatal and major fire accidents from occurring.

DUST AND NOISE MANAGEMENT

Part of our factory plants are leased to third parties for production purpose and we understand that these tenants will generate a lot of dusts and noises during production. To further enhance our control over dusts and noises, we have established a range of controlling procedures specifically for these two major hazards. Tenants are required to strictly comply with such procedures, in order to create a good and healthy working environment.

In terms of personal protection measures for employees, we mandatorily require employees working in relevant workshops to wear gloves, earplugs and masks to protect their personal safety. For protection measures in the production environment, workshops are equipped with dust collection equipment. Workers on site must frequently clean the floor to minimize saw dusts left, with dust pipeline kept closed. Moreover, while transporting and centrally handling dusts through closed pipelines can effectively improve the quality of production environment and significantly reduce dusts on site, there is a potential safety risk that massive fire or even explosion will be caused by a spark in the closed pipelines with abundant combustible materials and oxygen within the pipeline transport system. Therefore, we have installed spark detectors and automated fire extinguishing system in the relevant workshops, which effectively prevents accidents from happening. In respect of daily inspection, our staff in the security division will regularly test the level of dusts and noises in workshops.

SAFETY GUIDELINES AND TRAINING

We have established the "Regulation and Maintenance System for Dust Meters and Noise Instruments", "Fire Fighting Equipment Management System", "Fire Control Room Duty Management Procedures", "Handling Measures for Abnormal Dusts and Noises" and various instructions on safe operation procedures, which detail the safety management methods for equipment, routine inspection procedures for operators, inspection procedures before and after use of equipment, and wearing requirements. These guidelines help to lower the possibility of accidents while enabling standardized safety management.

We place great emphasis on raising the safety awareness and skills of all employees, strengthening and standardizing the education and training on safety for staff in a bid to promote the safety quality of employees, prevent injury and fatal accidents and mitigate safety risk. As such, the Group's security department will prepare an annual safety training programs. Our focuses for the year were placed on:

- training on occupational health and safety knowledge (protection and daily first aid)
- training on transportation safety
- training on fire fighting and forklift safety knowledge
- training on corporate safety knowledge (case study of accidents)
- laws and regulations on safe production
- specific training on dusts
- training on identification of hazardous sources
- knowledge on construction and specialized operation safety
- Knowledge on dangerous chemicals

COMPLETE CONTINGENCY PLANS

The Group has formulated a comprehensive Contingency Plan, with a view to ensuring the personal and property safety of all employees, preventing serious and extra serious accidents from occurring and mitigating the loss and environmental pollution caused by accidents through robust preparations, so as to achieve safe production.

To allow the Contingency Plan being more comprehensive, we have referenced to various sources while establishing the policy, such as the Law on Response to Emergencies, Safe Production Law, Fire Protection Law, Production Management Regulations, the Opinion of the People's Government of Jiangsu Province on Enhancing the Development of Safe Production Contingency and Rescue System, the Guidelines for Production and Operating Entities to Prepare Contingency Plans for Production Safety Accidents, and the General Technical Requirements for Gas Detecting Alarms in Operational Environment.

Under our Contingency Plan, we first analyse hazards in our operations to capture potential dangers arising from our processing procedures and products. Based on any identified hazardous factors, we then formulate do's and don'ts for operation and prepare preventive and fire-fighting equipment in advance, allowing all employees to quickly respond to various accidents and potential emergencies that may be faced in the course of processing, preventing or reducing the impact of accidents on occupational health and safety.

To avoid chaos by providing better direction and leadership when an accident occurs, we have especially set up an emergency rescue command group, which is led by our production director as commander in chief for emergency rescue, and clearly articulated the responsibilities and duties of each department. For example, the security department is responsible for evacuation, human resources department is responsible for first aid and equipment and technology department is responsible for power management and rescue with equipment on site. Besides, for those required to possess special skills in the emergency rescue command group, we have already arranged relevant training, for example on how to use fire-fighting equipment and on first aid techniques to enhance their ability to handle emergencies.

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

We conduct regular fire training and fire drills. Through practical drills, employee's ability to escape and save themselves and use fire-extinguishing tools at the scene of the fire was enhanced, in an effort to achieve "zero loss". After completing the drills, we will organise a fire drill exhibition to review any deficiency during the drill and identify any weakness of contingency rescue plans for further refinement and perfection.

To maintain a safe and healthy working environment and avoid any unnecessary injuries or accidents, during the Reporting Period, we implemented the following measures:

- Prohibit smoking in the area of our workshop to reduce the possibility of accident;
- Promote a proactive and risk-prevention prevention culture and encourage each employee of the Group to be responsible for work safety;
- Provide employees with necessary information, guidance, training and supervision on safety management;
- Check for any insecurity and fix it immediately
- Understand actively the latest developments in occupational safety legislation and regulations and take additional measures as necessary;
- Hire a person with registered safety engineer qualification to perform regular checks on production equipment and strength safety management.

During the Reporting Period, as far as the directors are aware, the Group has not been involved in significant administrative sanctions or penalties for breaching the relevant laws and regulations concerning the provision of a safe working environment and protection for employees from occupational hazards. In addition, the Group has not received any complaints or notices from the regulatory authorities regarding the relevant laws and regulations concerning security breaches.

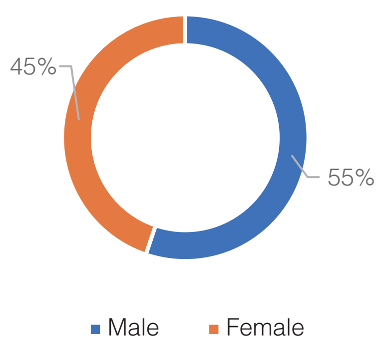
CARING FOR EMPLOYEES

Responsible and experienced employees are our most significant and valuable assets. We are committed to offering training and development opportunities to our employees, so that they can develop their potential in a healthy and safe working environment where they are respected.

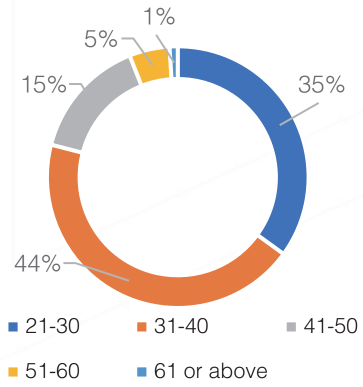
TOTAL EMPLOYEES

154

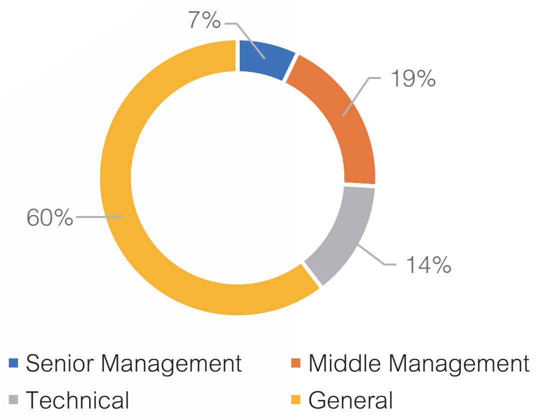
Distribution by Gender



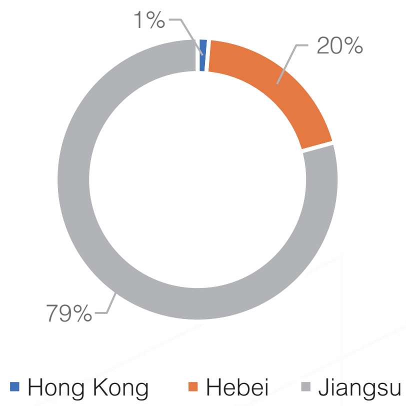
Distribution by Age



Distribution by Employment Type



Distribution by Location



ATTRACTING AND SELECTING TALENTS

In respect of employment and labour practices, the laws and regulations applicable to our business with a significant influence include the Labour Law of the People's Republic of China, the Employment Contract Law of the People's Republic of China and various relevant national and local regulations, which are all designed to protect the lawful interests and rights of workers and ensure companies meet their obligations. We have been making every effort to comply with these laws and regulations related to our employees and have developed our human resources management policies based on the principle of "Equality, Openness and Fairness". All aspects of our employment practices, including pay, dismissal, recruitment, promotion, working hours or holiday, have been established in accordance with laws and regulations. In addition, we hire employees through open recruitment, fair competition and robust evaluation. In the meantime, we have also adopted a diversified and "zero discrimination" approach to recruitment and promotion, such that employees will be treated equally irrespective of their nationality, ethnicity, race, gender, religious belief and cultural background to prevent discrimination in any form.

When recruiting new hires, our dedicated human resources department will examine candidates' background and verify their identify cards to prevent child labour. Once any child labour has been identified, a dedicated handling group will be formed immediately to protect the child or forced labour in question, penalise responsible employee or supplier and notify local social welfare authorities, ensuring the issue is resolved properly and quickly. During the Reporting Period, the Group had no non-compliance in respect of child labour.

DEVELOPING AND RETAINING TALENTS

The Group provides employees with a competitive remuneration system, paying premiums for pension, medical care, unemployment, injury and maternity insurances and making contributions to the housing provident fund for employees as required by local governments, to ensure their entitlement to social insurance benefits. We periodically review the promotion and salaries of employees, ensuring compensations for employees are reasonable and consistent with the market. Our human resources department also conducts regular performance assessments of employees, and takes the assessment result as a benchmark to promote employees and adjust salary.

We have strict constraints on overtime working and discourage employees to work overtime. Where overtime is required, employees will receive compensation accordingly in the form of overtime salary paid by us as required. We strictly abide by the statutory employment standards in terms of wages and working hours and rest hours, and maintain appropriate internal management system and codes of practice. During the Reporting Period, there were no forced labour cases within the Group.

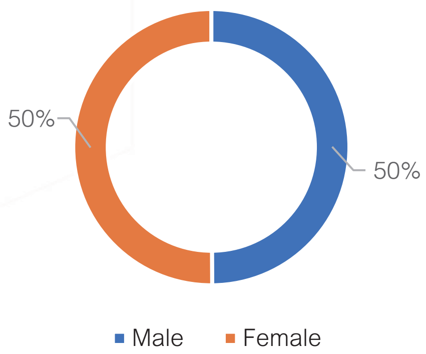
We endeavor to provide employees with appropriate opportunities for development and skill training, enabling them to grow together with the Group. We have in place an annual training programs to help employees to improve and develop professional skills and capture knowledge on business operation. For new employees, we provide welcome pack and induction programmes, which allow them to get familiar with and integrated into our corporate culture swiftly, while gaining insight into our products and the operation of various departments. For existing employees, we provide them with on-job training that covers the corporate culture of AMS, as well as job-related training. For middle management, we provide them with training on management, target setting and communication.

At the same time, we also regularly review training policies and tactics, evaluate the course effectiveness and program result, and evaluate the performance of training instructors, hoping to provide employees with the most suitable training.

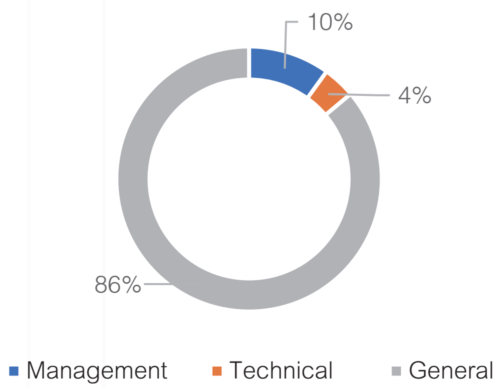
TOTAL TRAINING HOURS: 1,036 HOURS

AVERAGE TRAINING HOURS PER EMPLOYEE: 0.55 HOURS

Distribution by Gender



Distribution by Employment Type



HAPPY WORK, HEALTHY LIVING

To promote a healthy and harmonious corporate culture and to enrich the lives of our employees outside of work, we have developed a series of benefits based on the theme of "Happy Work, Healthy Living". The employees' physical and mental health activities advocated that all employees pay attention to health and create a delightful atmosphere.

We host monthly birthday celebrations for employees by preparing birthday cakes and useful gifts for them, hoping that employees appreciate the Company's care for them while working. Apart from birthday celebrations, we also organise interesting recreational team building activities, such as three-legged race, foot drill, extreme challenge contest, rope skipping contest, table tennis competition and race, to unleash the potential of employees, improve and enhance their personal mental quality, and shape a deeper and stronger team bonding among them for cultural inheritance.

To help employees feel the Company's love and care for them, we offer holiday gifts to employees at different festivals, such as moon-cakes for the Mid-Autumn Festival, red packets for the Lunar New Year, and gift packages for the Women's Day, etc. In addition, we also send gifts, maternity gifts, and benefits to employees for pre-employment health examinations.

LISTENING TO EMPLOYEES

We strive for creating a good working environment where the management and employees at all levels are encouraged to communicate with each other. We are happy to listen and respond to the needs and suggestions of employees, who can send their suggestions or opinions to the management through the General Manager Mailbox. Our human resources department will from time to time engage with employees through meetings, emails, questionnaire and other means to understand their circumstances and report to the management if necessary.

SUPPLY CHAIN MANAGEMENT

The Group is committed to developing long-lasting and reciprocal partnership with suppliers. During our operations, we endeavor to perform our environmental and social responsibilities, while expecting our suppliers to share the common belief in acting with integrity, treating employees fairly and complying with all applicable regulations. With thorough evaluation of potential and existing suppliers, we are able to effectively monitor and assess their performance in areas from product and service quality to business conduct, so as to ensure they can join hands with the Group in shaping a better future.

We used the “Supplier Assessment Record Sheet” to conduct regular assessment for all suppliers, and the Group’s supply chain center, quality management center, production management center and R&D center will participate in the supplier assessment process, by evaluating whether the supplier has a legitimate business procedures, and provide ratings for the effectiveness of its quality control system, delivery status and cooperation level, in order to select suppliers that meet the requirements of the Group. Those suppliers passing the evaluation process can formally become our qualified suppliers and be entered into the “Qualified Supplier List”. We conduct regular follow-up evaluation of suppliers, and will suspend our cooperation with them until the circumstance has been improved if they are found to be in breach of our policies or contractual requirements.

PROHIBITING CORRUPTION

We regard integrity and trustworthiness as our cornerstone. As such, we actively implement the “clean governance” approach with “zero tolerance” for bribery, extortion, fraud and money laundering in any form. For this purpose, the Group has issued the “Employee Handbook” and “Corruption and Advocacy Management System”, which clearly stated those behavior that employees should pay attention to when conducting business activities, in order to prevent bribery, corruption, money laundering, and conflicts of interest.

To further enhance employees’ consciousness of professional ethics, anti-corruption and integrity advocacy, as well as risk awareness of corrupt behaviors, we require employees to fully comply with relevant provisions specified under the Employee Manual, and not to seek personal gain through relationships, accept any bribes or embezzle corporate funds. Anyone who uses own position to engage in malpractices for personal gain, gives or accepts any bribes or has any gross breaches of duty is subject to severe punishment. We also strength employees’ awareness of anti-corruption by providing them with training in this regard. For the coming year, the Group will further refine its efforts in anti-money laundering, including establishing a documented system to govern anti-money laundering procedures, in addition to plans to provide information and training to employees for better understanding of relevant requirements, which helps us to improve our performance in all aspects of fighting money laundering.

We have established a whistle blowing channel for all employees to escalate any suspicious misconduct, fraud or improper, unfair or unethical treatment. Any identified misconduct will be investigated into promptly and thoroughly and referred to the law enforcement authority for follow-up where necessary. As the Group is concerned, laws and regulations applicable to our business with a significant influence include the Supervision Law of the People's Republic of China, the Prevention of Bribery Ordinance and other related laws and regulations. In the future, we will continue to comply with relevant requirements. During the Reporting Period, the Group did not have any violations related to violation of relevant anti-corruption laws and regulations.

GIVE BACK TO SOCIETY

The Group always pays attention to its corporate image and social responsibility, seeking to give back and contribute to the society. As a responsible company, we continue to practice public welfare, participate in various charitable and social charities actively, and care for disadvantaged communities. From time to time, employees are encouraged to participate in social services and donate to charitable organisations. We believe that personal engagement in giving back to the society can improve the civic awareness of employees and help them to form the right values.

COOPERATION BETWEEN UNIVERSITY AND ENTERPRISE FOR COMMON DEVELOPMENT

During the Reporting Period, we formally launched the long-term comprehensive cooperation programs for production and research with the College of Furnishings and Industrial Design of Nanjing Forestry University. Following the opening ceremony, both parties exchanged opinions and discussed on areas, such as cooperation in running school, setting up postgraduate workstations, engineering center, and partnership in scientific research projects. A substantial agreement has been reached on the cooperation between both parties, laying a solid foundation for mutual benefits and development going forward.

LOOKING FORWARD

Looking ahead, we will continue to develop more projects, insist on providing better services to customers, adhere to the highest ethical standards, and explore talents. At the same time, we undertake to more actively and proactively focus on environmental protection and meet our social responsibility with practical actions. We will maintain green and health and uphold the business principles of "people-oriented, operate with integrity and shared prosperity for people and the nature", to move forward along the path to green, ecological and environmental protection.

THE STOCK EXCHANGE GUIDELINE CONTENT INDEX FOR ESG REPORT

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
A. Environment			
Level A1: Emissions			
General Disclosure	Regarding emissions and emissions of greenhouse gases, emissions to water and land, generation of harmful and non-hazardous wastes etc.: (a) Policies; and (b) Compliance with relevant laws and regulations that have a significant impact on the issuer	• Environmental protection —"AMS" • Sustainability performance summary	P.44 P.45
Key Performance Index A1.1	Types of emissions and related emissions data.	• Sustainability performance summary	P.45
Key Performance Index A1.2	Total greenhouse gas emissions (in tons) and (if applicable) density (if calculated per unit of output, per facility).	• Sustainability performance summary	P.45
Key Performance Index A1.3	The total amount of hazardous wastes generated (in tons) and (if applicable) the density (if calculated per unit of output, per facility).	The Group did not generate any hazardous wastes during its operations.	N/A
Key Performance Index A1.4	The total amount of non-hazardous wastes generated (in tons) and (if applicable) the density (if calculated per unit of output, per facility).	• Sustainability performance summary	P.45
Key Performance Index A1.5	Describe emission reduction measures and results.	• Energy saving and emission reduction measures	P.47
Key Performance Index A1.6	Describe ways to treat hazardous and non-hazardous wastes and measures to reduce production and the results.	• Waste management	P.46
Level A2: ResourceUtility			
General Disclosure	Policies for the effective use of resources including energy, water, and other raw materials.	• Environmental protection —"AMS"	P.44
Key Performance Index A2.1	The total consumption (in thousands of kWh) and density (for example, calculated in units of production, per facility) of direct and/or indirect energy (such as electricity, gas or oil) by type.	• Sustainability performance summary	P.45
Key Performance Index A2.2	Total water consumption and density (if calculated in units of production per facility).	• Sustainability performance summary	P.45
Key Performance Index A2.3	Describe energy use efficiency plans and results.	• Environmental protection —"AMS"	P.44
Key Performance Index A2.4	Describe any problems that may arise from the application of water, as well as plans to improve water use efficiency and the results achieved.	• Environmental protection —"AMS"	P.44
Key Performance Index A2.5	The total amount of packaging materials used in finished products (in tons) and (if applicable) per unit of production.	The Group did not produce any packaging materials in its operations.	N/A

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level A3: Environment and Natural Resources			
General Disclosure	Reduce the issuer's policies that have a significant impact on the environment and natural resources.	• Environmental protection —"AMS"	P.44
Key Performance Index A3.1	Describe the significant impact of business activities on the environment and natural resources and have taken actions to manage the impact.	• Environmental protection —"AMS"	P.44
B. Society			
Employment and Labor Practices			
Level B1:Employment			
General Disclosure	Regarding remuneration and dismissal,recruitment and promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other benefits: (a) policies; and (b) information on compliance with relevant laws and regulations that have a significant impact on issuer.	• Caring for employees • Attracting and selecting talents. • Developing and retaining talents. • Happy work, healthy living. • Listening to employees.	P.55 P.56 P.56 P.57 P.59
Key Performance Index B1.1	Total workforce by employment type, age group and geographical region.	• Caring for employees.	P.55
Key Performance Index B1.2	Employee turnover ratio by age group and region.	Relevant data is not disclosed during the year	N/A
Level B2: Health and Safety			
General Disclosure	Regarding providing a safe working environment and protecting employees from occupational hazards: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Occupational health and safety.	P.49
Key Performance Index B2.1	Numbers and percentages of deaths related to work.	During the Reporting Period, there were no deaths due to work.	N/A
Key Performance Index B2.2	Loss of working days due to work injuries.	During the Reporting Period, there were no injuries in workplace	N/A
Key Performance Index B2.3	Describe the occupational health and safety measures adopted, and the related implementation and monitoring methods.	• Occupational health and safety.	P.49

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level B3:DevelopmentandTraining			
General Disclosure	Policies on improving employees' knowledge and skills in performing job duties. Describe training activities.	• Safety guidelines and training. • Developing and retaining talents.	P.52 P.56
Key Performance Index B3.1	Percentage of trained employees by gender and employee category (eg. senior management, middle management, etc.).	• Developing and retaining talents.	P.56
Key Performance Index B3.2	The average number of hours each employee completed training by gender and employee category.	• Developing and retaining talents.	P.56
Level B4: Labor Standard			
General Disclosure	For the prevention of child labor or forced labor: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Attracting and selecting talents.	P.56
Key Performance Index B4.1	Describe measures to review recruitment practices to avoid child labor and forced labor.	• Attracting and selecting talents.	P.56
Key Performance Index B4.2	Describe the steps taken to eliminate the situation when a violation is found	• Attracting and selecting talents	P.56
Operating practices			
Level B5: Supply Chain Management			
General Disclosure	Management of supply chain environmental and social risk policies.	• Supply chain management	P.59
Key Performance Index B5.1	Number of suppliers by region.	All suppliers of the Group are located in China.	N/A
Key Performance Index B5.2	Describe the practice of hiring suppliers, implement the number of suppliers with relevant practices, and the methods of implementation and supervision of relevant practices.	Relevant data is not disclosed during the year.	N/A

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level B6: Products Liability			
General Disclosure	Regarding health and safety,advertising, labeling and privacy issues and remedies for the products and services provided: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Product health and safety • Features of "Salicaceae" • Quality control • Technical improvement • Customer service and privacy	P.40 P.41 P.42 P.43 P.43
Key Performance Index B6.1	Percentage of total products already been sold or delivered that needs to be recovered for safety and health reasons.	During the Reporting Period, no product was recovered due to safety and health reasons.	N/A
Key Performance Index B6.2	Number of complaints received about products and services and how to deal with them.	During the Reporting Period, no complaints were received regarding products and services.	N/A
Key Performance Index B6.3	Describe the practices related to the maintenance and protection of intellectual property.	• Technical improvement	P.43
Key Performance Index B6.4	Describe the quality verification process and product recovery procedures.	• Quality control There was no product recycling during the year.	P.42
Key Performance Index B6.5	Describe consumer data protection and privacy policies, and related enforcement and monitoring methods.	• Customer service and privacy	P.43
Level B7:Anti-corruption			
General Disclosure	For the prevention of bribery, extortion,fraud and money laundering: (a) Policy; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Prohibiting corruption	P.59
Key Performance Index B7.1	The number of corruption lawsuits filed against the issuer or its employees during the Reporting Period and their verdicts.	During the Reporting Period, the Group did not find any serious violation of relevant laws and regulations that have a significant impact on the Group.	N/A
Key Performance Index B7.2	Describe preventive measures and whistle-blowing procedures, as well as related implementation and monitoring methods.	• Prohibiting corruption	P.59

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level B8: Investing in theCommunity			
General Disclosure	The policy on community involvement is to understand the needs of the communities in which they operate and to ensure that their business activities take into account the interests of the community.	• Give back to society	P.60
Key Performance Index B8.1	Focus on areas of contribution (such as education, environmental issues, labor needs, health, culture,sports).	Relevant data is not disclosed during the year.	N/A
Key Performance Index B8.2	Use resources (such as money or time) in focused areas.	Relevant data is not disclosed during the year.	N/A

Report of the Directors

PRINCIPAL ACTIVITIES

The principal activities of the Company are sale of less-shaved Processed Wood Panels and rendering of Wood Processing Procedure service. The principal activities and other particulars of the subsidiaries of the Company are set out in note 14 to the financial statements.

BUSINESS MODEL AND STRATEGY

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

The Group operates two production plants in the PRC, situated at Wei County, Handan City, Hebei Province and Huai'an City, Jiangsu Province for the rendering of Wood Processing Procedure Service. The Group's less-shaved Processed Wood Panels are predominantly sold through our own sales and marketing department.

Details of the Group's business performance and financial review for the year ended 31 December 2018 are set out in the "Management Discussion and Analysis" section of this annual report.

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

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the section of Financial Highlights, Chairlady's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

Compliance with laws and regulations

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

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

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

Environmental policies and performance

Emissions

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

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

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

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

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

Use of resources

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

Principal Risks and Uncertainties Facing the Company

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees, Customers and Suppliers

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

Our major suppliers are generally providing materials for production of the Group and had business relationship with the Group for over 3 years on average.

We have not granted any credit term to any major supplier. As at 31 December 2018, the Group had no amount due to major suppliers. For the details of trade payables, see Note 20 to the consolidated financial statements.

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

In order to alleviate risks for conduct of suppliers, the Group used the "Supplier Assessment Record Sheet" to conduct regular assessment for all suppliers for evaluating whether the supplier has a legitimate business procedures for its quality control system.

During the year ended 31 December 2018, the Group did not have any significant disputes with our major suppliers.

Our major customers are customers who purchase raw poplar wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere.

The credit terms granted to the major customers ranged from 30 to 60 days. Details of the trade receivables of the Group as at 31 December 2018 are set out in note 16 to the consolidated financial statements. Up to the date of this report, 27.3% of the trade receivables from the major customers has been settled.

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

The performance of product quality is closely related to the development of the Group. In order to alleviate quality risks for products, the Group adheres to the strict quality standards and comply with laws and regulations related to our operations. We have also obtained the international quality management system standard ISO 9001 for standardizing the production process.

During the Reporting Period, the Group did not have any material disputes with our major customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 86 of this annual report.

The Directors recommend the payment of a final dividend of HK$0.02 per ordinary share for the year ended 31 December 2018 (2017: HK$0.02 per ordinary share) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Monday, 27 May 2019, subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Monday, 20 May 2019. The final dividend will be payable on or around Monday, 10 June 2019.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 May 2019 to Monday, 20 May 2019 (both days inclusive), during which period no transfer of the shares will be effected. The holders of shares whose names appear on the register of members of the Company on Monday, 20 May 2019 will be entitled to attend and vote at the annual general meeting of the Company. In order to qualify for attending and voting at the annual general meeting of the Company or any adjournment thereof, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by no later than 4:00 p.m. on Friday, 10 May 2019.

The register of members of the Company will be closed from Friday, 24 May 2019 to Monday, 27 May 2019 (both days inclusive), during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Thursday, 23 May 2019.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 78.3% of the total sales. The top five suppliers accounted for approximately 98.8% of the total purchases for the year. In addition, the Group's largest customer group accounted for approximately 66.3% of the total sales and the Group's largest supplier accounted for approximately 73.7% of the total purchases for the year.

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

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Company and the Group as at 31 December 2018 are set out in the financial statements on pages 86 to 154.

RESERVES

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

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, and retained profits, if any, which in aggregate amounted to RMB229.9 million as at 31 December 2018.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

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

DONATIONS

During the year, the Group did not make charitable and other donations (2017: Nil).

SHARE CAPITAL

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

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors

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

Independent non-executive Directors

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

Biographical information of Directors of the Group are set out from pages 19 to 20 of this annual report.

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

DIRECTORS' SERVICE CONTRACTS

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

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

DISCLOSURE OF CHANGE IN INFORMATION ON DIRECTORS

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

Mr. Lau has been appointed as an independent non-executive director of Sinco Pharmaceuticals Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 6833) since November 2018.

PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the year under review and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2018, no claims were made against the Directors.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

CONFIRMATION OF INDEPENDENCE

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

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

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

(i) The Company

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

(ii) Associated corporation of the Company

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

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

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

As at 31 December 2018, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules on the Stock Exchange:

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

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

Save as disclosed above, as at 31 December 2018, other than the Directors and chief executives of the Company whose interests are set out in the paragraph "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures and its Associated Corporation" above, the Company had not been notified by any persons who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

EQUITY-LINKED AGREEMENT

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

Share Option Scheme

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

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

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

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

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

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

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

(iii) the nominal value of the Share.

The Share Option Scheme will remain in force for a period of 10 years and the remaining life of the Share Option Scheme is 5 years.

There is no option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2018.

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

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the year are set out in note 28 to the financial statements. For the year ended 31 December 2018, the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTION

For the year ended 31 December 2018, there was no transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and a connected entity of a Director had a material interest, subsisted at the end of the year or at any time during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to protect the Group's interest in its business activities, on 20 December 2013, each of Brilliant Plan Holdings Limited ("Brilliant Plan") and Ms. Yim Tsun ("Ms. Yim"), the controlling shareholders of the Company (the "Controlling Shareholders"), have entered into a non-competition deed with the Company (for itself and on behalf of its subsidiaries), pursuant to which each of them shall not, and shall procure that none of its/her close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of processing, manufacturing and sales of Processed Wood Products, and such other business conducted or carried on by the Group from time to time within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time. The Company has received a confirmation from the Controlling Shareholders on their compliance with the non-competition deed for the year ended 31 December 2018.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries, at any time during the year ended 31 December 2018.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2018 are set out in note 23 to the financial statements.

FINANCE LEASE

Details of obligations under finance lease of the Group as at 31 December 2018 are set out in note 24 to the financial statements.

CONTRIBUTIONS TO THE RETIREMENT BENEFITS SCHEMES

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the shares of the Company during the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

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

USE OF PROCEEDS

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

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

INTEREST OF COMPLIANCE ADVISER

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

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended 31 December 2018 is scheduled to be held on Monday, 20 May 2019. A notice convening the Annual General Meeting will be issued and despatched to shareholders on 15 April 2019.

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 December 2018.

By order of the Board
Yim Tsun
Chairlady

28 March 2019

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

OPINION

We have audited the consolidated financial statements of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 154, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

<table>
<tr><th colspan="2">Revenue recognition</th></tr>
<tr><td colspan="2">Refer to note 4 to the consolidated financial statements and the accounting policies on page 112 in Note 2 (s).</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Revenue of the Group for the year ended 31 December 2018 principally comprised the sale of wood products to wood panel distributors and furniture manufacturers, and the rendering of wood processing services for wood panel distributors and furniture manufacturers.

Management evaluates the terms of each contract in order to determine the Group's performance obligations and appropriate timing for revenue recognition.

Revenue from sales of wood products is generally recognised when the self-produced wood products are despatched to and accepted by customers. Revenue from the rendering of wood processing services is generally recognised when the processed wood products are despatched to and accepted by customers upon signing the documents indicating the weight of impregnation fluid consumed.

We identified revenue recognition as a key audit matter because revenue is a key performance indicator for the Group and the key driver of gross profit which increases the risk that revenue may be manipulated to meet targets or expectations and because there is a risk that particular terms of sale may not be met and, as a result, revenue may be recognised in the incorrect period.</td><td>Our audit procedures to assess the recognition of revenue included the following:

• assessing the design, implementation and operating effectiveness of key internal controls relating to the recognition of revenue from the sale of wood products and the rendering of wood processing services, respectively;

• inspecting sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly;

• comparing sales transactions, on a sample basis, with the underlying delivery notes for goods self-produced and processed for customers, monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing and cash receipts and obtaining audit confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing, on a sample basis, to assess whether the related revenue was recognised in the Group's revenue recognition accounting policies;</td></tr>
</table>

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

KEY AUDIT MATTERS (Continued)

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 112 in Note 2 (s).	
The Key Audit Matter	**How the matter was addressed in our audit**
	• performing site visits and interviewing management of significant new customers to gain understanding of the operations of these new customers and assessing whether the revenue recorded by the Group during the current year in respect of these new customers was consistent with the perceived size and nature of the new customers' operations; • comparing sales transactions just before and after the financial year end, on a sample basis, with the terms as set out in the underlying sales contracts and the underlying goods delivery notes for goods self-produced and the signed documents indicating the weight of impregnation fluid consumed during wood processing and monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing, to assess if the related revenue was recognised in the appropriate accounting period; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period in accordance with the requirements of the prevailing accounting standards; and • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

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

KEY AUDIT MATTERS (Continued)

<table>
<tr><th colspan="2">Assessing potential impairment of non-current assets held by certain subsidiary of the Group</th></tr>
<tr><td colspan="2">See notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on page 105 in Note 2 (i) (iii).</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>In 2017, the Group temporarily ceased the operation of the coal-fired boilers of a subsidiary of the Group located in Handan, Hebei Province, in compliance with the requirement of work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (the "Air Pollution Control Work Plan"). During the year ended 31 December 2018, the Group and the local government of Handan reached a conclusion whereby the local government removed the coal-fired boilers with compensations to the Group by regulation, and would assist in the construction of a new natural gas boiler and the supply of natural gas that would comply with Air Pollution Control Work Plan.

As at 31 December 2018, the subsidiary of the Group located in Handan, Hebei Province, did not resume operation.

The directors identified indicators of potential impairment of non-current assets held by this subsidiary and performed impairment assessments to these assets as at 31 December 2018 based on the valuation report issued by an independent external valuer engaged by the Group, using value in use model. The impairment assessment involves a significant degree of management judgement, particularly in relation to the key assumptions adopted, including the contract prices, the discount rate applied in the discounted cash flow forecast.</td><td>Our audit procedures to assess potential impairment of non-current assets included the following:

• assessing the Group's impairment assessment model, which included assessing the impairment indicators identified by the management, the identification of the cash generating unit ("CGUs") and the allocation of assets to those CGUs;

• assessing the external valuer's qualifications, experience and expertise and considering their objectivity and independence;

• obtaining the valuation report prepared by the external valuer engaged by the Group on which the impairment of certain non-current assets are based;

• evaluating the valuation methodology adopted by the external valuer with reference to the requirements of the prevailing accounting standards, with assistance of our internal valuation specialists;

• involving our internal valuation specialists in assessing the key assumptions adopted in the calculation of value in use, by assessing whether the key assumptions were within the range adopted by other companies in the same industry or comparing with market and other external available information;</td></tr>
</table>

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

KEY AUDIT MATTERS (Continued)

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<tr><th colspan="2">Assessing potential impairment of non-current assets held by certain subsidiary of the Group</th></tr>
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<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>We identified assessing potential impairment of non-current assets as a key audit matter because the impairment assessments include a number of assumptions and estimates which require the exercise of significant management judgement and are inherently uncertain and could be subject to potential management bias.</td><td>involving our internal valuation specialists to assist us in evaluating the discount rate applied in the discounted cash flow forecasts by assessing whether the discount rate applied in the discounted cash flow forecasts were within the range of those adopted by other companies in the same industry and with similar risk profile; and
considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants

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

28 March 2019

Consolidated statement of profit or loss

For the year ended 31 December 2018
(Expressed in Renminbi ("RMB"))

	Note	2018 RMB'000	2017 RMB'000
Revenue	4	**247,592**	238,330
Cost of sales		**(109,507)**	(93,927)
Gross profit	4(b)	**138,085**	144,403
Other income	5	**21,768**	7,679
Selling expenses		**(4,064)**	(2,675)
Administrative expenses		**(66,647)**	(74,628)
Profit from operations		**89,142**	74,779
Finance costs	6(a)	**(2,887)**	(7,111)
Profit before taxation	6	**86,255**	67,668
Income tax	7	**(16,608)**	(11,232)
Profit attributable to equity shareholders of the Company for the year		**69,647**	56,436
Earnings per share			
— Basic and diluted (RMB)	10	**0.070**	0.056

The notes on pages 93 to 154 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 27(b).

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2018
(Expressed in RMB)

	2018 RMB'000	2017 RMB'000
Profit for the year	**69,647**	56,436
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation of financial statements into presentation currency	**970**	(514)
Total comprehensive income attributable to equity shareholders of the Company for the year	**70,617**	55,922

The notes on pages 93 to 154 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	11	**209,874**	231,353
Investment properties	12	**50,892**	54,018
Lease prepayments	13	**52,616**	53,753
Deferred tax assets	26(b)	**7,395**	6,522
		320,777	345,646
Current assets			
Inventories	15	**69,114**	132,890
Trade receivables	16	**58,984**	16,264
Prepayments, deposits and other receivables	17	**116,491**	38,475
Prepaid income tax	26(a)	**2,302**	6,072
Cash and cash equivalents	18	**90,117**	131,852
Time and restricted deposits	19	**117,152**	96,460
		454,160	422,013
Current liabilities			
Trade payables	20	**—**	761
Receipts in advance	21	**1,315**	104
Accrued expenses and other payables	22	**17,941**	18,605
Bank and other loans	23(a)	**30,000**	74,828
Obligations under finance lease	24	**—**	5,487
Income tax payable	26(a)	**4,080**	—
		53,336	99,785
Net current assets		**400,824**	322,228
Total assets less current liabilities		**721,601**	667,874

The notes on pages 93 to 154 form part of these financial statements.

At 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred income	25	**28,007**	30,535
Deferred tax liabilities	26(b)	**3,800**	1,300
		31,807	31,835
NET ASSETS		**689,794**	636,039
CAPITAL AND RESERVES	27		
Share capital		**7,921**	7,921
Reserves		**681,873**	628,118
TOTAL EQUITY		**689,794**	636,039

Approved and authorised for issue by the board of directors on 28 March 2019.

Yim Tsun
Director

Li Li
Director

The notes on pages 93 to 154 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Other reserve RMB'000 (Note 27(d)(ii))	Statutory reserves RMB'000 (Note 27(d)(iii))	Exchange reserve RMB'000 (Note 27(d)(iv))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2017	7,921	259,976	30	36,432	4,955	288,418	597,732
Changes in equity for 2017:							
Profit for the year	—	—	—	—	—	56,436	56,436
Other comprehensive income	—	—	—	—	(514)	—	(514)
Total comprehensive income	—	—	—	—	(514)	56,436	55,922
Dividend approved and paid in respect of the previous year	—	(17,615)	—	—	—	—	(17,615)
Appropriation to reserves	—	—	—	6,162	—	(6,162)	—
Balance at 31 December 2017	7,921	242,361	30	42,594	4,441	338,692	636,039
Balance at 1 January 2018	7,921	242,361	30	42,594	4,441	338,692	636,039
Changes in equity for 2018:							
Profit for the year	—	—	—	—	—	69,647	69,647
Other comprehensive income	—	—	—	—	970	—	970
Total comprehensive income	—	—	—	—	970	69,647	70,617
Dividend approved and paid in respect of the previous year	—	(16,862)	—	—	—	—	(16,862)
Appropriation to reserves	—	—	—	8,438	—	(8,438)	—
Balance at 31 December 2018	7,921	225,499	30	51,032	5,411	399,901	689,794

The notes on pages 93 to 154 form part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before taxation		**86,255**	67,668
Adjustments for:			
Depreciation and amortisation	6(c)	**29,305**	30,663
Net loss on disposal of property, plant and equipment	5	**—**	5,558
Impairment loss on trade receivables	29(a)	**12**	—
Impairment loss on property, plant and equipment	11(d)	**—**	2,265
Interest income	5	**(4,822)**	(1,126)
Finance costs	6(a)	**2,887**	7,111
Government grants related to assets		**(2,528)**	(2,528)
Changes in working capital:			
Decrease in inventories		**63,776**	17,808
(Increase)/decrease in trade receivables		**(42,732)**	2,672
Decrease/(increase) in prepayments, deposits and other receivables		**4,381**	(6,189)
Decrease in trade and bills payables		**(761)**	(17,960)
Increase in receipts in advance		**1,211**	29
Increase in accrued expenses and other payables		**1,105**	708
Cash generated from operations		**138,089**	106,679
Income tax paid	26(a)	**(7,131)**	(24,448)
Net cash generated from operating activities		**130,958**	82,231
Investing activities			
Payments for acquisitions of property, plant and equipment		**(8,033)**	(13,781)
Proceeds from disposals of property, plant and equipment		**1,261**	2,726
Increase in time deposits	19	**(115,652)**	(96,460)
Decrease in time deposits		**96,460**	50,000
Interest received		**3,133**	1,126
Loans to third parties		**(80,000)**	—
Net cash used in investing activities		**(102,831)**	(56,389)

The notes on pages 93 to 154 form part of these financial statements.

Consolidated cash flow statement (Continued)

For the year ended 31 December 2018
(Expressed in RMB)

	Note	2018 RMB'000	2017 RMB'000
Financing activities			
Proceeds from new bank loans	18(b)	**30,000**	60,000
Repayment of bank and other loans	18(b)	**(74,828)**	(38,629)
Capital element of finance lease rentals paid	18(b)	**(5,487)**	(6,270)
Interest element of finance lease rentals paid	18(b)	**(503)**	(1,716)
Dividends paid	27(b)(ii)	**(16,862)**	(17,615)
Other finance costs paid	18(b)	**(2,444)**	(5,395)
Net cash used in financing activities		**(70,124)**	(9,625)
Net (decrease)/increase in cash and cash equivalents		**(41,997)**	16,217
Cash and cash equivalents at 1 January	18	**131,852**	115,817
Effect of foreign exchange rate changes		**262**	(182)
Cash and cash equivalents at 31 December	18	**90,117**	131,852

The notes on pages 93 to 154 form part of these financial statements.

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Group. The principal activities of the Group are sale of wooden products and rendering of wood processing procedure service.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9.

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The adoption of IFRS 9 does not have a material impact on the consolidated financial statements of the Group at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(i)(i), 2(k), 2(l) and 2(m).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(i) IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

a. Classification of financial assets and financial liabilities (Continued)

The measurement categories for all financial assets and financial liabilities remain the same, except for financial guarantee contracts (see note 2(i)(ii)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, deposits and other receivables and contract assets as defined in IFRS 15 (see Note 2(k)); and

— financial guarantee contracts issued (see Note 2(i)(ii)).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(i) (i) and (ii).

This change in accounting policy does not have a material impact on the opening loss allowance determined in accordance with IAS 39 and IAS 37 as at 1 January 2018.

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— The assessments of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of IFRS 15 does not have a material impact on the financial position and the financial result of the Group.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs.

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

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

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

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(iii)).

(e) Property, plant and equipment

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

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

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

(g) Intangible asset

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

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

Amortisation of intangible asset with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful life.

(h) Leased assets

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) Classification of assets leased to the Group

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

(ii) Assets acquired under finance leases

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

(iii) Operating lease charges

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, deposits and other receivables and contract assets (see Note 2(k)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls for trade receivables, deposits and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof, where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

— significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade receivables, deposits and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

When the recovery of trade receivables, deposits and other receivables or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued (see Note 2(s)(vi)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued (Continued)

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in “trade and other payables” in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 2(i)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in “trade and other payables” in respect of the guarantee.

(iii) Impairment of other non-current assets

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

— property, plant and equipment;

— investment properties;

— pre-paid interests in leasehold land classified as being held under an operating lease; and

— investment in a subsidiary in the Company’s statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(iv) Interim financial reporting and impairment

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(j)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories, are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories and other contract costs (Continued)

(ii) Other contract costs (Continued)

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(s).

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised (see Note 2(l)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(i)(i).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(i)(ii), trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs.(see Note 2(u)).

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

(p) Employee benefits

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

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

(ii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

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

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

  — the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of service

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

(iii) Rental income from operating leases

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

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income (Continued)

(v) Government grants

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

(vi) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees (see Note 2(i)(ii)).

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

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

(u) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Expected credit losses for trade receivables

The Group estimates loss allowance at an amount equal to lifetime ECLs, which are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If the financial conditions of the customers and debtors were to deteriorate, and these customers and debtors do not have assets or sources of income that could generate sufficient cash flows to repay the amounts, actual write-offs would be higher than estimated.

(b) Impairment losses for non-current assets

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future years.

(d) Depreciation

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

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of Revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
— Sales of Processed Wood Panels	**92,924**	62,042
— Rendering of Wood Processing Procedure service	**154,668**	176,288
	247,592	238,330

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical market is disclosed in Notes 4(b)(i) and 4(b)(ii).

The Group's customer base is diversified and includes only one customer group with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2018 (2017: one customer group). In 2018, revenues to this customer group, amounted to approximately RMB164,135,000 (2017: RMB112,862,000). Details of concentrations of credit risk arising from this customer are set out in Note 29(a).

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by products and services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments for the year ended 31 December 2018. No operating segments have been aggregated to form the following reportable segments.

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

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

(i) Segment results, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2018 and 2017. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured. The Group's other operating income and expenses, such as other income and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

		2018	
	Sales of Processed Wood Panels RMB'000	**Rendering of Wood Processing Procedure Service RMB'000**	**Total RMB'000**
Revenue from external customers recognised at a point in time	**92,924**	**154,668**	**247,592**
Reportable segment gross profit	**23,857**	**114,228**	**138,085**

		2017	
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	62,042	176,288	238,330
Reportable segment gross profit	14,653	129,750	144,403

(ii) Geographic information

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

5 OTHER INCOME

	2018	2017
	RMB'000	RMB'000
Interest income	**4,822**	1,126
Government grants	**5,001**	3,905
Rental income from operating leases	**11,698**	7,958
Financial guarantee contracts issued	**131**	—
Net gain from sale of scrap materials	**116**	248
Net loss on disposal of property, plant and equipment	**—**	(5,558)
	21,768	7,679

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2018	2017
	RMB'000	RMB'000
Interest on bank and other loans	**2,138**	5,239
Finance charges on obligations under finance lease	**503**	1,716
Bank charges	**246**	156
Total finance costs	**2,887**	7,111

No borrowing costs have been capitalised for the year ended 31 December 2018 (2017: RMBNil).

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs#:

	2018 **RMB'000**	2017 RMB'000
Salaries, wages and other benefits	**14,220**	19,280
Contributions to defined contribution retirement schemes	**1,447**	2,018
	15,667	21,298

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

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

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

(c) Other items:

	2018 **RMB'000**	2017 RMB'000
Depreciation and amortisation#	**29,305**	30,663
Operating lease charges in respect of office premises	**889**	935
Auditors' remuneration:		
— audit and review services	**3,236**	3,135
Research and development costs (including costs relating to staff costs disclosed in *Note 6(b)*)	**11,494**	22,919
Cost of inventories# *(Note 15(b))*	**100,421**	93,927

\# Cost of inventories includes RMB6,063,000 for the year ended 31 December 2018 (2017: RMB15,138,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current taxation *(Note 26(a))*:		
— The PRC Corporate Income Tax	**14,981**	9,582
Deferred taxation *(Note 26(b))*:		
— Origination and reversal of temporary differences	**(2,173)**	350
— Withholding tax in connection with the retained profits to be distributed by subsidiaries of the Group	**3,800**	1,300
	1,627	1,650
	16,608	11,232

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**86,255**	67,668
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**22,110**	17,602
Tax effect of non-deductible expenses	**1,324**	1,725
Tax concessions *(Note (iv))*	**(10,626)**	(9,395)
Withholding tax in connection with the retained profits to be distributed by subsidiaries of the Group *(Note (v))*	**3,800**	1,300
Income tax	**16,608**	11,232

7 INCOME TAX (Continued)

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

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands and Hong Kong, respectively, are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2018 (2017: 16.5%). No provision for Hong Kong Profits Tax has been made, as these companies have no assessable profits which are subject to Hong Kong Profits Tax for the year ended 31 December 2018 (2017: RMBNil).

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

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2018 (2017: 25%).

(iv) The subsidiaries of the Group established in the PRC obtained approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, these subsidiaries are entitled to a preferential PRC Corporate Income Tax rate of 15% for the three years ending 31 December 2019 or 31 December 2020. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 75% (2017: 50%) of the qualified research and development costs incurred by these subsidiaries.

(v) Two subsidiaries of the Group established in the PRC declared on 11 March 2019 that RMB26,000,000 current profits and RMB50,000,000 retained profits, respectively, will be distributed to China Wood Optimization (HK) Limited. The directors are of the opinion that these dividends of RMB76,000,000 are subject to PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations. As a result, deferred tax liabilities of RMB3,800,000 have been provided as at 31 December 2018 accordingly..

Excluding the above RMB76,000,000, the rest taxable temporary differences relating to the undistributed retained profits of the subsidiaries of the Group established in the PRC amounted to RMB287,295,000 at 31 December 2018 (31 December 2017: RMB291,859,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out below:

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms Yim Tsun	**711**	**—**	**—**	**—**	**711**
Mr Li Li	**711**	**—**	**—**	**—**	**711**
Independent non-executive directors					
Mr Zhang Dali	**127**	**—**	**—**	**—**	**127**
Mr Pu Junwen	**127**	**—**	**—**	**—**	**127**
Mr Lau Ying Kit	**127**	**—**	**—**	**—**	**127**
	1,803	**—**	**—**	**—**	**1,803**

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

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whom the emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2017: three) who are not directors are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**1,131**	1,090
Discretionary bonuses	**110**	160
Retirement scheme contributions	**88**	80
	1,329	1,330

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

	2018 Number of individuals	2017 Number of individuals
HK$Nil — HK$1,000,000	**3**	3

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

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2018 is calculated based on the profit attributable to the equity shareholders of the Company of RMB69,647,000 (2017: RMB56,436,000) and the weighted average of 1,000,000,000 ordinary shares (2017: 1,000,000,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2018 and 2017.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2017	229,404	170,184	11,956	758	412,302
Additions	111	2,714	1,253	1,130	5,208
Transfer in/(out)	—	1,111	411	(1,522)	—
Reclassification to investment properties *(Note 12)*	(56,012)	—	—	—	(56,012)
Disposals	—	(19,396)	(2,102)	—	(21,498)
At 31 December 2017	173,503	154,613	11,518	366	340,000
Accumulated depreciation and impairment losses:					
At 1 January 2017	(30,394)	(63,114)	(5,474)	—	(98,982)
Charge for the year	(8,853)	(17,162)	(1,273)	—	(27,288)
Impairment loss *(Note (d))*	—	(2,201)	(64)	—	(2,265)
Reclassification to investment properties *(Note 12)*	6,674	—	—	—	6,674
Written back on disposals	—	12,635	579	—	13,214
At 31 December 2017	(32,573)	(69,842)	(6,232)	—	(108,647)
Net book value:					
At 31 December 2017	140,930	84,771	5,286	366	231,353
Cost:					
At 1 January 2018	173,503	154,613	11,518	366	340,000
Additions	777	811	2,085	1,151	4,824
Transfer in/(out)	—	255	—	(255)	—
Disposals	—	(2,638)	—	—	(2,638)
At 31 December 2018	174,280	153,041	13,603	1,262	342,186
Accumulated depreciation and impairment losses:					
At 1 January 2018	(32,573)	(69,842)	(6,232)	—	(108,647)
Charge for the year	(8,001)	(14,635)	(2,406)	—	(25,042)
Impairment loss *(Note (d))*	—	—	—	—	—
Written back on disposals	—	1,377	—	—	1,377
At 31 December 2018	(40,574)	(83,100)	(8,638)	—	(132,312)
Net book value:					
At 31 December 2018	133,706	69,941	4,965	1,262	209,874

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Assets sold and leased back

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

(c) Assets held under finance lease

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

(d) Impairment loss

In 2017, the Group temporarily ceased the operation of the coal-fired boilers of Hebei AMS in compliance with the requirement of work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (the "Air Pollution Control Work Plan"). During the year ended 31 December 2018, Hebei AMS and the local government reached an agreement that Hebei AMS would dismantle the coal-fired boilers and construct a new natural gas boiler as replacement and the local government would compensate the relevant loss of Hebei AMS. As at 31 December 2018, the natural gas boiler is still under construction and Hebei AMS is expected to resume operation during the first half of 2019. The Group assessed the recoverable amount of the related property, plant and equipment of Hebei AMS as at 31 December 2018 based on the valuation report issued by an independent qualified valuer engaged by the Group. No further impairment loss was recognised in 2018 (2017: RMB2,265,000). The estimates of recoverable amount were based on the value in use or fair value less cost of disposal of the related property, plant and equipment.

12 INVESTMENT PROPERTIES

	2018 **RMB'000**	2017 RMB'000
Cost:		
At 1 January	**65,795**	9,783
Reclassification from property, plant and equipment *(Note 11)*	**—**	56,012
At 31 December	**65,795**	65,795
Accumulated amortisation:		
At 1 January	**(11,777)**	(2,865)
Reclassification from property, plant and equipment *(Note 11)*	**—**	(6,674)
Charge for the year	**(3,126)**	(2,238)
At 31 December	**(14,903)**	(11,777)
Net book value:		
At 31 December	**50,892**	54,018

Notes:

(i) The investment properties owned by the Group are situated in the PRC. According to the property valuation report issued by an independent qualified valuer, the fair value of the Group's investment properties at 31 December 2018 is RMB77,430,000 (31 December 2017: RMB74,190,000).

(ii) Investment properties leased out under operating leases

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

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

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**13,088**	12,253
After 1 year but within 5 years	**4,115**	3,849
	17,203	16,102

13 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**57,402**	57,402
Additions	**—**	—
At 31 December	**57,402**	57,402
Accumulated amortisation:		
At 1 January	**(3,649)**	(2,512)
Charge for the year	**(1,137)**	(1,137)
At 31 December	**(4,786)**	(3,649)
Net book value:		
At 31 December	**52,616**	53,753

Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC, with a lease period of 50 years.

14 INTERESTS IN SUBSIDIARIES

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

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

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

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

15 INVENTORIES

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

	2018 **RMB'000**	2017 RMB'000
Raw materials	**5,830**	398
Work in progress	**—**	131
Finished goods	**63,284**	132,361
	69,114	132,890

15 INVENTORIES (Continued)

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**100,421**	93,927

16 TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables from third parties, net of loss allowance	**58,984**	16,264

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

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

Note:

Upon the adoption of IFRS 9, nil of opening adjustment as at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(c)(i)).

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

	2018 RMB'000	2017 RMB'000
Aged within 1 month	**19,101**	16,264
Aged from 1 to 2 months	**18,353**	—
Aged from 2 to 3 months	**21,530**	—
	58,984	16,264

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 29(a).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Prepayments for purchase of inventories	**28,424**	30,460
Deposits for other loan and obligations under finance lease	**2,213**	4,713
Loans to third parties *(Notes (i) and (ii))*	**80,000**	—
Others	**5,854**	3,302
	116,491	38,475

Notes:

(i) As at 10 August 2018, Jiangsu AMS entered into a short-term loan agreement with a third party borrower pursuant to which Jiangsu AMS agreed to lend to this third party borrower a one year short-term loan in the principal amount of RMB50,000,000. The interest rate of this loan is 10% per annum.

(ii) As at 10 December 2018, Hebei AMS entered into a short-term loan agreement with a third party borrower pursuant to which Hebei AMS agreed to lend to this third party borrower a one year short-term loan in the principal amount of RMB30,000,000. The interest rate of this loan is 9% per annum.

(iii) All of the short-term prepayments, deposits and other receivables at 31 December 2018 and 2017 are expected to be recovered or recognised as expenses within one year.

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2018	2017
	RMB'000	RMB'000
Cash on hand and at bank	**90,117**	131,852

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

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

(b) Reconciliation of liabilities arising from financing activities:

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

	Bank and other loans RMB'000 (Note 23)	Payables for interest expenses RMB'000 (Note 22)	Finance leases RMB'000 (Note 24)	Total RMB'000
At 1 January 2018	74,828	63	5,487	80,378
Changes from financing cash flows:				
Proceeds from new bank loans	30,000	—	—	30,000
Repayment of bank and other loans	(74,828)	—	—	(74,828)
Capital element of finance lease rentals paid	—	—	(5,487)	(5,487)
Interest element of finance lease rentals paid	—	—	(503)	(503)
Other finance costs paid	—	(2,444)	—	(2,444)
Total changes from financing cash flows	(44,828)	(2,444)	(5,990)	(53,262)
Other changes:				
Finance charges on obligations under finance leases *(Note 6(a))*	—	—	503	503
Interest expenses and bank charges *(Note 6(a))*	—	2,384	—	2,384
Total other changes	—	2,384	503	2,887
At 31 December 2018	30,000	3	—	30,003

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

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Bank and other loans RMB'000 (Note 23)	Payables for interest expenses RMB'000 (Note 22)	Finance leases RMB'000 (Note 24)	Total RMB'000
At 1 January 2017	53,457	63	11,757	65,277
Changes from financing cash flows:				
Proceeds from new bank loans	60,000	—	—	60,000
Repayment of bank and other loans	(38,629)	—	—	(38,629)
Capital element of finance lease rentals paid	—	—	(6,270)	(6,270)
Interest element of finance lease rentals paid	—	—	(1,716)	(1,716)
Other finance costs paid	—	(5,395)	—	(5,395)
Total changes from financing cash flows	21,371	(5,395)	(7,986)	7,990
Other changes:				
Finance charges on obligations under finance leases *(Note 6(a))*	—	—	1,716	1,716
Interest expenses and bank charges *(Note 6(a))*	—	5,395	—	5,395
Total other changes	—	5,395	1,716	7,111
At 31 December 2017	74,828	63	5,487	80,378

19 TIME AND RESTRICTED DEPOSITS

	2018 **RMB'000**	2017 RMB'000
Time deposits with original maturity over 3 months (*Note (i)*)	**115,652**	96,460
Other restricted deposits	**1,500**	–
	117,152	96,460

Note:

(i) At 31 December 2018, time deposits of RMB92,900,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000, RMB58,000,000 of which were repaid by the borrower in January 2019 and as a result the corresponding time deposits pledges of RMB61,300,000 have been released at the same time. The remaining bank loan will be expired in May 2019.

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

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

20 TRADE PAYABLES

	2018 **RMB'000**	2017 RMB'000
Trade payables to third parties	**—**	761
	—	761

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

	2018 **RMB'000**	2017 RMB'000
Due within 1 month or on demand	**—**	761
	—	761

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

21 RECEIPTS IN ADVANCE

	2018 RMB'000	2017 RMB'000
Receipts in advance from customers	**1,315**	104

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

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

22 ACCRUED EXPENSES AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Payables for construction and purchase of property, plant and equipment	**1,770**	4,979
Payables for staff related costs	**3,774**	3,784
Payables for interest expenses	**3**	63
Deposit	**2,500**	—
Others	**5,420**	3,809
Financial liabilities measured at amortised cost	**13,467**	12,635
Payables for miscellaneous taxes	**1,946**	3,442
Deferred income	**2,528**	2,528
	17,941	18,605

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

23 BANK AND OTHER LOANS

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

	2018 **RMB'000**	2017 RMB'000
Short-term bank loan:		
— secured *(Note (i))*	**30,000**	30,000
Add: Current portion of long-term other loan *(Note 23(b))*	**—**	44,828
	30,000	74,828

Note:

(i) At 31 December 2018, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the short-term bank loan is RMB58,460,000 (31 December 2017: RMB60,867,000).

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

	2018 **RMB'000**	2017 RMB'000
Long-term bank loan:		
— secured	**—**	40,000
Long-term other loan from a financial leasing institution		
— secured	**—**	4,828
	—	44,828
Less: Current portion of long-term other loan *(Note 23(a))*	**—**	(44,828)
	—	—

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

	2018 **RMB'000**	2017 RMB'000
Within 1 year or on demand	**—**	44,828

23 BANK AND OTHER LOANS (Continued)

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

At 31 December 2018, the Group's banking loan facility amounted to RMB50,000,000 (31 December 2017: RMB50,000,000) was utilised to the extent of RMB30,000,000 (31 December 2017: RMB30,000,000).

All of the non-current interest-bearing borrowings are carried at amortised cost.

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

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

24 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2018, the Group had obligations under finance lease repayable as follows:

	2018		2017	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	—	—	5,487	5,990
	—	—	5,487	5,990
Less: Total future finance charges		—		(503)
Present value of lease obligations		—		5,487

25 DEFERRED INCOME

	2018 **RMB'000**	2017 RMB'000
At 1 January	**33,063**	35,591
Additions	**—**	—
Credited to profit or loss	**(2,528)**	(2,528)
	30,535	33,063
Less: Current portion of deferred income	**(2,528)**	(2,528)
At 31 December	**28,007**	30,535

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

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) (Prepaid income tax)/current taxation in the consolidated statement of financial position represents:

	2018 **RMB'000**	2017 RMB'000
(Prepaid income tax)/income tax payable at 1 January	**(6,072)**	8,794
Provision for income tax on the estimated taxable profits for the year *(Note 7(a))*	**14,981**	9,582
Income tax paid during the year	**(7,131)**	(24,448)
Income tax payable/(prepaid income tax) at 31 December	**1,778**	(6,072)
Representing:		
Prepaid income tax	(2,302)	(6,072)
Income tax payable	4,080	—
	1,778	(6,072)

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

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Assets — accrued expenses and government grants and related amortisation RMB'000	Assets — unused tax losses RMB'000	Assets — impairment loss RMB'000	Liabilities — fair value adjustments on property, plant and equipment and lease prepayments and related depreciation and amortisation in connection with the acquisition of a subsidiary RMB'000	Liabilities — retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2017	8,415	—	—	(43)	(1,500)	6,872
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(3,459)	1,257	340	12	200	(1,650)
At 31 December 2017	4,956	1,257	340	(31)	(1,300)	5,222
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(379)	1,316	(76)	12	(2,500)	(1,627)
At 31 December 2018	4,577	2,573	264	(19)	(3,800)	3,595

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

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

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**7,395**	6,522
Deferred tax liabilities recognised in the consolidated statement of financial position	**(3,800)**	(1,300)
	3,595	5,222

(d) Deferred tax liabilities not recognised

As disclosed in Note 7(b)(v), at 31 December 2018 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB287,295,000 (31 December 2017: RMB291,859,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Exchange reserve RMB'000 (Note 27(d)(iv))	Accumulated (losses)/profits RMB'000	Total RMB'000
Balance at 1 January 2017	7,921	259,976	31,645	(22,960)	276,582
Changes in equity for 2017:					
Profit for the year	—	—	—	13,997	13,997
Dividend approved and paid in respect of the previous year	—	(17,615)	—	—	(17,615)
Other comprehensive income	—	—	(17,922)	—	(17,922)
Total comprehensive income	—	(17,615)	(17,922)	13,997	(21,540)
Balance at 31 December 2017	7,921	242,361	13,723	(8,963)	255,042
Balance at 1 January 2018	7,921	242,361	13,723	(8,963)	255,042
Changes in equity for 2018:					
Profit for the year	—	—	—	13,338	13,338
Dividend approved and paid in respect of the previous year	—	(16,862)	—	—	(16,862)
Other comprehensive income	—	—	11,448	—	11,448
Total comprehensive income	—	(16,862)	11,448	13,338	7,924
Balance at 31 December 2018	7,921	225,499	25,171	4,375	262,966

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	2018 RMB'000	2017 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.02 per ordinary share (2017: HK$0.02 per ordinary share)	**17,524**	16,178

The directors resolved on 28 March 2019 that HK$20,000,000, equivalent to RMB17,524,000, is to be distributed to the equity shareholders of the Company, subject to the approval of the equity shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2018 RMB'000	2017 RMB'000
Final dividend proposed in respect of the previous financial year, approved and paid during the year, of HK$0.02 per ordinary share (2017: HK$0.02 per ordinary share)	**16,862**	17,615

(c) Share capital

	2018		2017	
	No. of shares	RMB'000	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Other reserve

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

(iii) Statutory reserves

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

(iv) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium) available for distribution to equity shareholders of the Company is RMB229,874,000 (31 December 2017: RMB242,361,000).

(f) Capital management

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

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

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital management (Continued)

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 December 2018, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 December 2018, the liability-to-asset ratio of the Group is 11.0% (31 December 2017: 17.1%).

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

28 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

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

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**3,441**	3,487
Retirement schemes contributions	**151**	143
	3,592	3,630

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

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, deposit and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions with sound credit standings, for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in Note 31, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in Note 31.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2018, 88.7% (31 December 2017: 36.0%) and 96.3% (31 December 2017: 40.2%) of the total trade receivables were due from the Group's largest debtor group and the five largest debtors respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.01%	19,103	2
Less than 1 month past due	0.02%	18,356	3
1 to 2 months past due	0.03%	21,537	7
		58,996	12

Expected loss rates are based on actual loss experience, adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(I)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, none of the trade receivables was determined to be impaired.

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Comparative information under IAS 39 (Continued)

Movements in the loss allowance account in respect of trade receivables during the year are as follows:

	RMB'000
Balance at 1 January 2017 and 31 December 2017 under IAS 39	—
Impact on initial application of IFRS 9 *(Note 2(c)(i))*	—
Adjusted balance at 1 January 2018	—
Impairment losses recognised during the year	12
Balance at 31 December 2018	12

(b) Liquidity risk

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

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

	2018 Contractual undiscounted cash out flow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Accrued expenses and other payables measured at amortised cost	**12,720**	**—**	**12,720**	**12,720**
Bank and other loans	**30,110**	**—**	**30,110**	**30,000**
	42,830	**—**	**42,830**	**42,720**

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

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

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

	2018		2017	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loans	**5.35%**	**30,000**	5.55%	70,000
Other loan		**—**	17.09%	4,828
Finance lease liabilities		**—**	19.30%	5,487
		30,000		80,315

No sensitivity analysis was performed for the years ended 31 December 2018 and 2017, as the Group's fixed rate borrowings do not expose the Group to cash flow interest rate risk.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk

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

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in RMB)	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**16**	15

(ii) Sensitivity analysis

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

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
RMB	**5%**	**1**	5%	1
	(5%)	**(1)**	(5%)	(1)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

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

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

(e) Fair values

The Group does not have any financial instruments measured at fair value at 31 December 2018 and 2017.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2018 and 2017.

30 COMMITMENTS

Operating lease commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**272**	704
After 1 year but within 5 years	**—**	260
	272	964

31 CONTINGENT LIABILITIES

At 31 December 2018, the Group has the following guarantees:

	2018	2017
	RMB'000	RMB'000
Time deposit pledges for bank loans of a third party supplier *(Note (i))*	**92,900**	50,760
Guarantee for other loan of a third party customer *(Note (ii))*	**50,000**	—
	142,900	50,760

Notes:

(i) Further details of this guarantee are set out in Note 19.

(ii) At 31 December 2018, the Group provided a corporate guarantee for a long-term other loan of a third party customer of Hebei AMS amounting to RMB50,000,000 (31 December 2017: RMB Nil). This other loan will be expired in June 2020.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	**2018** **RMB'000**	2017 RMB'000
Non-current assets			
Interests in a subsidiary		**261,683**	238,380
Current assets			
Prepayments and other receivables		**616**	16,862
Cash and cash equivalents		**1,829**	525
		2,445	17,387
Current liabilities			
Accrued expenses and other payables		**1,162**	725
Net current assets		**1,283**	16,662
NET ASSETS		**262,966**	255,042
CAPITAL AND RESERVES	27(a)		
Share capital		**7,921**	7,921
Reserves		**255,045**	247,121
TOTAL EQUITY		**262,966**	255,042

Approved and authorised for issue by the board of directors on 28 March 2019.

Yim Tsun
Director

Li Li
Director

(Expressed in RMB unless otherwise indicated)

33 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2018 to be Brilliant Plan Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

IFRS 16, *Leases*

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

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

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for office premises, which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. Accordingly, the Group's procurement contract disclosed in Note 30, which will expire in 2019, will continue to be accounted for as a lease arrangement. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in Note 30, at 31 December 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB272,000, all of which is payable within 12 months after the reporting date. The adoption of IFRS 16 does not have a significant impact on the Group's consolidated financial statements.