ZHI SHENG GROUP HOLDINGS LIMITED
智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8370

2018

Annual Report

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

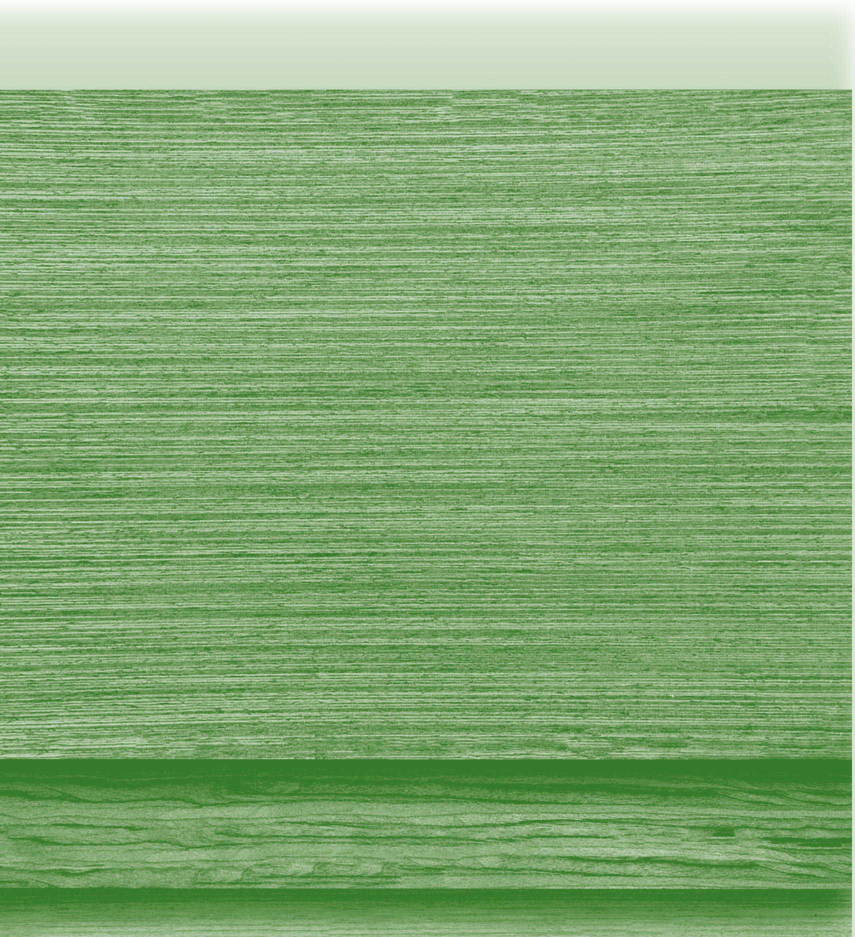
GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

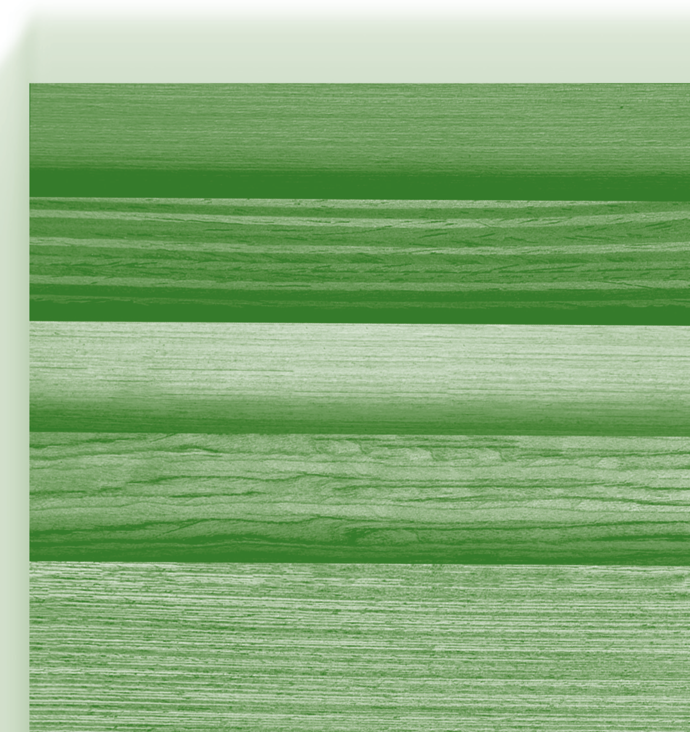
Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Zhi Sheng Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together the "Group"). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

CONTENTS





CORPORATE INFORMATION

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

3/F, 222 Tianren Road
Gaoxin District
Chengdu City
Sichuan Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 17/F, Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong

EXECUTIVE DIRECTORS

Mr. Yi Cong *(Chief Executive Officer)*
Mr. Liang Xing Jun

NON-EXECUTIVE DIRECTOR

Mr. Luo Guoqiang
(appointed on 28 September 2018)
Mr. Ma Gary Ming Fai
(resigned on 28 September 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Kit
Ms. Cao Shao Mu
Mr. Kwok Sui Hung

AUTHORISED REPRESENTATIVES

Mr. Yi Cong
Ms. Leung Yuk Yi

COMPLIANCE OFFICER

Mr. Yi Cong

COMPANY SECRETARY

Ms. Leung Yuk Yi (HKICPA)

AUDIT COMMITTEE

Mr. Chan Wing Kit *(Chairman)*
Ms. Cao Shao Mu
Mr. Kwok Sui Hung

REMUNERATION COMMITTEE

Mr. Chan Wing Kit *(Chairman)*
Ms. Cao Shao Mu
Mr. Kwok Sui Hung

NOMINATION COMMITTEE

Mr. Chan Wing Kit *(Chairman)*
Ms. Cao Shao Mu
Mr. Kwok Sui Hung

COMPLIANCE ADVISER

(appointed on 5 March 2018)
Octal Capital Limited
Room 801-805
8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

LEGAL ADVISER

Guantao & Chow Solicitors and Notaries
Suites 1604–6
16/F, ICBC Tower
3 Garden Road Central Hong Kong

CORPORATE INFORMATION

AUDITOR

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central Hong Kong

PRINCIPAL BANKERS

China Citic Bank
China Minsheng Bank
China Construction Bank
Agricultural Bank of China
Industrial and Commercial Bank of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY'S WEBSITE ADDRESS

www.qtbgjj.com

STOCK CODE

8370

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

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

In 2018, in terms of China's macro economy, China certainly faced a lot of pressure. In terms of the international economy, United States president Donald Trump has always pursued trade protectionism and unilateralism and the United States is constantly withdrawing from various world groups, causing trade barriers around the world. Meanwhile, under the pressure of the gradual rate hike in the United States, the currencies of emerging market countries have been under tremendous pressure, facing a series of problems such as capital outflows and intensified debt. Although China has withstood multiple pressures, the domestic economy has also shown signs of slowing down. The year-on-year increase in GDP in China for the year 2018 was 6.6%, but the year-on-year increase in GDP of the third quarter and the fourth quarter were 6.5% and 6.4%, respectively. According to the National Bureau of Statistics of China, the GDP growth rate in 2019 is only 6.3%, and China's macro economy is facing further downward pressure. The "China-US trade war" is not over yet, and China's domestic economy will face greater pressure and uncertainty. Affected by the above factors, the intensified domestic market competition in China and the decrease in overall demand in China, sales achieved by the Group in 2018 was significantly lower than that in the corresponding period of 2017, and the Group expects to face major challenges and pressures in its operations in the coming year. Nonetheless, the Group has been actively implementing its established sales strategy and working hard to overcome various difficulties with its years of experience and competitive advantages in office furniture. Although the revenue attributable to Sichuan Province and Tibet Autonomous Region decreased by a large margin compared with the same period in 2017, the revenue attributable to Guizhou Province, Yunnan Province and Chongqing Municipality grew year-on-year, which stabilized the Group's market share in the five provinces of Southwest China. Moreover, markets outside the southwestern region, such as the Guangxi Autonomous Region, have made major breakthroughs in 2018. They have achieved certain results in expanding geographical coverage and winning new customers in such regions, and at the same time boosted company confidence to some extent.

Looking forward, the Group will make steady progress in accordance with the plans formulated before its listing and its actual operational conditions, so as to facilitate effective implementation of the business objectives of the Company and bring benefits from it. The Group has carried out the renovation of the exhibition halls in Chengdu and Chongqing as planned, which will help enhance the attractiveness of the Group's products and the brand image. In the meantime, the Group has also purchased advanced production equipment and put it into use as planned. At present, it has begun to play a role in improving production efficiency and controlling costs, and has enhanced the competitiveness of the Group's tenders.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In terms of sales strategy, on the one hand, the Group continues to adhere to the market share of traditional advantageous provinces such as Sichuan, Yunnan, Guizhou, Chongqing Municipality and Tibet Autonomous Region, to actively participate in various office furniture bidding businesses in the five provinces of Southwest China, and to improve the success rate in bidding by appropriately reducing the gross profit margin of projects, so as to mitigate the impact of the significant reduction in the demand of large customers in the previous year (subject to the allocation cycle). Meanwhile, the Company gradually extends the technological research and development inputs on innovative products year by year, to strengthen the competitiveness in tendering for the financial system network of the Company and to extend the market share. On the other hand, the Group actively develops markets outside the five provinces of Southwestern China, with the current target being the provinces of Jiangsu, Guangdong, Guangxi, Beijing and Shanghai, as well as Qinghai Province in the northwest. The Group is actively seeking new customers and striving to expand the market share in these regions. We clearly understand that with the further slowdown of the overall economy in the future and the significant reduction in demand from large customers due to the allocation cycle, the sales situation in the five provinces of Southwest China will become increasingly severe, and the competition for office furniture bidding will become more and more fierce. The expansion of markets in other provinces and regions will also face many difficulties. However, the Group believes that with the efforts of the Group and the implementation of the above sales initiatives, the expansion of the above sales initiatives, business expansion in the above regions will still be new sales growth drivers, which will gradually drive the Group's sales out of the trough to resume growth.

Meanwhile, the Group will further strictly control various cost expenses and reduce unnecessary energy consumption, striving to achieve the profit targets set by the Group.

APPRECIATION

We understand that the business environment in the foreseeable future is full of uncertainty, and the competition in the office furniture market will become more intense, which will put pressure on profit margins. In the ever-changing business environment at present, the greatest challenge facing the Board and the management is to adapt to the environment, seize all investment opportunities and minimize risks, so as to achieve better business benefits and maximize the return for all shareholders. I am confident in meeting the challenges in 2019. On behalf of the Board, I would like to express my heartfelt gratitude to the Group's valuable customers, business partners and shareholders for their continued support and trust. I would also like to take this opportunity to thank our fellow colleagues of the Board, the senior management team and all our staff for their unremitting efforts, team spirit and contributions to the Group.

Yours faithfully,

Yi Cong
Chief Executive Officer

Hong Kong, 22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products in the PRC. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan province, Chongqing city, Tibet Autonomous Region, Jiangsu province and Guangdong province. The Group sells its products to its customers mainly through two major sales channels, namely participating in tenders and direct sales. The Group's sales offices, Sichuan Greenland Furniture Co., Limited ("Sichuan Greenland") and branch office in Chongqing ("Chongqing Branch Office") are located in Chengdu city and Chongqing city, respectively.

As affected by the economic slowdown, the national PRC government department has stipulated "No new construction of office buildings within the next five years, downsizing in office space, and new office furniture allocation standards to extend office furniture useful life", resulting in the reduction of government procurement of office furniture; in the southwestern region where the Group has traditional sales advantages, the demand for office furniture at financial institution outlets has decreased significantly as compared with previous years. Moreover, the increasingly strict environmental regulation of governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development.

Under the combined influence of the above factors, leveraging on years of experience and competitive strengths of the Group, including (i) quality of its products which are recognised by the PRC government and international certification organisations; (ii) its provision of custom-made office furniture to suit the needs of its customers; (iii) its provision of after-sales customer service to ensure customers are satisfied with the quality of the Group's products; (iv) its extensive experience and knowledge in dealing with PRC governmental departments, major financial institutions and state-owned entities; and (v) its experienced management team, the Group actively implemented the established sales strategy, strived to overcome various difficulties, and basically achieved the goal of stabilizing the Group's market share in the five provinces of Southwest China. Meanwhile, the Group effectively expanded the markets outside Southwest China.

For the year ended 31 December 2018, the revenue of the Group was approximately RMB74.9 million, representing a decrease of approximately 22.8% as compared to the same period of 2017. This was mainly due to the fact that, the revenue in Sichuan province and Tibet Autonomous Region of Sichuan Greenland decreased significantly compared with the same period of 2017. The large customer orders obtained in the above two provinces and regions for the year ended 31 December 2018 were significantly reduced compared with the same period in 2017, and the revenue from financial institutions in the above regions decreased year-on-year. However, the revenue in Guizhou province, Yunnan province and Chongqing city increased year-on-year, which stabilized the Group's market share in the five provinces in Southwest China. For Guangdong province and Jiangsu province, due to the non-sustainable (or one-off) nature of the sales orders of bidding customers, the revenue in 2018 failed to sustain and resulted in a significant year-on-year decline. However, in some areas outside the five southwestern provinces, especially the revenue attributable to the Guangxi Autonomous Region has increased significantly year-on-year, which has offset the decline of the Group's revenue to some extent. In addition, the revenue attributable to the Chongqing branch for the year ended 31 December 2018 decreased significantly compared with the same period of 2017, mainly due to the fact that there were no major customers in 2018 that were similar to those in 2017, and the revenue from financial institutions decreased significantly year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of approximately RMB74.9 million, representing a decrease of approximately 22.8% as compared to the same period in 2017.

Revenue of Sichuan Greenland was approximately RMB66.0 million for the year ended 31 December 2018, representing a decrease of approximately RMB17.4 million or 20.8% as compared to the year ended 31 December 2017.

(i) Revenue for the year ended 31 December 2018 attributable to our historically strong sales provinces and autonomous regions such as Sichuan province, Yunnan province, Guizhou province, Chongqing city, Tibet Autonomous Region decreased by approximately RMB12.7 million or 20.4% as compared to the same period of 2017. Among them, the large customer orders obtained in Sichuan province and Tibet Autonomous Region have decreased significantly compared with the same period in 2017 and the revenue from financial institutions decreased year-on-year. Although revenue for the year ended 31 December 2018 attributable to Yunnan province, Guizhou province, Chongqing city increased by approximately RMB1.3 million or 20.8% as compared to the same period of 2017, the average sales volume of new customers in the region is relatively low, so the realized revenue did not make up for the decline in revenue of the above provinces;

(ii) The revenue attributable to Guangdong province and Jiangsu province decreased significantly, mainly due to the non-sustainable (or one-off) nature of the sales orders of bidding customers and the revenue realized by the new customers in the above provinces in 2018 failed to make up for the reduced revenue of existing customers; and

(iii) Our sales strategy in Guangxi achieved positive results, the revenue for the year ended 31 December 2018 increased by approximately RMB8.1 million or 306.0% as compared to the same period of 2017, offsetting the decrease in revenue from the above provinces to some extent. In addition, Beijing, Shanghai, Henan province and Qinghai province in the northwestern region have also achieved certain growth in sales, but the contribution to the Group's revenue is limited.

For the year ended 31 December 2018, the revenue generated by the Chongqing branch was approximately RMB8.8 million, representing a decrease of approximately RMB4.7 million or 34.8% as compared with the year ended 31 December 2017. This was mainly due to the fact that for the year ended 31 December 2017, we achieved revenue of approximately RMB1.5 million and RMB1.4 million from a private company in Qinghai Province and Hubei Province, respectively while there was no similar large customer in 2018. In addition, the revenue from financial institutions decreased significantly year-on-year from approximately RMB1.9 million for the year ended 31 December 2017 to RMB0.9 million for the year ended 31 December 2018, which was one of the important factors for the decline in the revenue of Chongqing branch.

Cost of sales

For the year ended 31 December 2018, the Group's cost of sales amounted to approximately RMB48.8 million, representing a decrease of approximately 22.5% from approximately RMB63.0 million for the year ended 31 December 2017. Such decrease was mainly due to: (i) the Group's sales decreasing by approximately RMB22.1 million; (ii) a decrease in the cost of raw materials used and cost of goods purchased of approximately RMB13.4 million; (iii) a decrease in salary of production staff of approximately RMB0.3 million; and (iv) a decrease in other production expenses of approximately RMB0.4 million.

Gross profit

Gross profit decreased from approximately RMB34.0 million for the year ended 31 December 2017 to approximately RMB26.1 million for the year ended 31 December 2018. The gross profit margin decreased from approximately 35.1% for the year ended 31 December 2017 to approximately 34.8% for the year ended 31 December 2018. Such decrease was mainly attributable to the year-on-year decrease of approximately 22.8% in the sales revenue of the Group for the year ended 31 December 2018 as compared with the same period in 2017, resulting in a decrease in total gross profit of approximately RMB7.9 million.

Other income

For the year ended 31 December 2018, the Group's other income amounted to approximately RMB1,423,000, representing an increase of approximately 263.0% from RMB392,000 for the year ended 31 December 2017. Such increase was mainly attributable to the implementation of HKFRS 15 Revenue from Contracts with Customers from the beginning of this year, resulting in the reclassification of interest income arising from unwinding of discounted quality assurance deposits as other income.

Selling and distribution expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses amounted to approximately RMB5.1 million, representing a decrease of approximately 6.1% from RMB5.4 million for the year ended 31 December 2017. Such decrease was mainly attributable to the accrual completion of depreciation for the decoration of the exhibition hall of Chongqing branch.

Administrative and other expenses

For the year ended 31 December 2018, the Group's administrative and other expenses amounted to approximately RMB16.2 million, representing an increase of approximately 17.2% from approximately RMB13.8 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in the R&D expenses of innovative products for this year as compared with the same period of last year.

Income tax expense

For the year ended 31 December 2018, the income tax expense of the Group amounted to approximately RMB1.2 million, representing a decrease of approximately RMB3.3 million or 73.4% as compared to the year ended 31 December 2017. Such decrease was mainly attributable to the decrease in the taxable profits of the Group generated during the year ended 31 December 2018.

Profit for the year attributable to the owners of the Company

For the year ended 31 December 2018, the profit for the year attributable to the owners of the Company amounted to approximately RMB5.0 million, representing a decrease of approximately RMB4.6 million from approximately RMB9.6 million for the year ended 31 December 2017. Such decrease was mainly attributable to the decrease of approximately 22.8% in sales revenue of the Group for the year ended 31 December 2018 compared to that of 2017, resulting in a decrease of approximately RMB7.9 million in gross profit. Meanwhile, the administrative and other expenses for the year increased by approximately 17.2% over the same period of 2017. This is also an important factor leading to the decline in profit.

Contract assets, trade and other receivables

Contract assets, trade and other receivables decreased from approximately RMB56.5 million as at 31 December 2017 to approximately RMB53.7 million as at 31 December 2018. Such decrease was mainly attributable to recovering customers' trade settlements on schedule.

Contract liabilities, trade and other payables

Contract liabilities, trade and other payables decreased from approximately RMB21.0 million as at 31 December 2017 to approximately RMB14.0 million as at 31 December 2018. Such decrease was mainly because the delivery of orders in 2018 reduced the amount of contract liabilities from Sichuan Greenland of approximately RMB4.6 million and the decrease of approximately RMB2.1 million in trade payables due to suppliers caused by the decrease in purchases of raw materials.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE PLACING

The company successfully listed on GEM on 20 January 2017 by the way of placing ("Placing") 268,000,000 ordinary shares issued at HK$0.31 per share on 19 January 2017. The following sets out a comparison and analysis of the business objectives as stated in the Prospectus with the Group's actual business progress up to 31 December 2018 (the "Review Period"):

Business Objectives	Actual Business Progress
Renovation and refurbishment of the exhibition hall to enhance customer experience	Completion of renovation of the exhibition hall at Sichuan Greenland, which has been put into use
Purchase machinery and equipment for the Group's production facilities and to strengthen our production capability	Machinery and equipment have been purchased as planned and have been delivered

Net proceeds from the Placing amounted to approximately HK$59.7 million (after deducting underwriting fees and other related expenses).

During the Review Period, net proceeds have been used in the following manner:

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus HK$ million	Actual use of proceeds during the Review Period HK$ million
Renovation of the exhibition hall at Sichuan Greenland	5.0	5.0
Acquisition of machinery and equipment	10.9	6.1
Repayment of existing short-term bank borrowings	42.8	42.8
Working capital and other general corporate purposes	1.0	1.0
	59.7	54.9

As of the date of this report, the renovation of the Group's Chengdu exhibition hall has been completed and was put into operation in the first quarter of 2018; the Group has purchased machinery and equipment as planned and the equipment has been delivered (the purchase of some machines was temporarily suspended due to the market downturn); the Group has repaid loans of approximately HK$7.2 million to financial institutions in Hong Kong and RMB30.0 million (HK$35.6 million) to China CITIC Bank. Out of the funds raised from the Placing, HK$1.0 million was put to use as working capital of the Group in accordance with the intended use. The unutilized net proceeds have been deposited as interest bearing deposits in licensed banks in Hong Kong and the PRC.

The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ensure the business growth of the Group.

During the Review Period, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

During the year ended 31 December 2018, the Group financed its operations by internally generated cash flow and net proceeds from the Placing. As at 31 December 2018, the net current assets of the Group amounted to approximately RMB93.7 million (31 December 2017: approximately RMB85.6 million), including bank balances and cash of approximately RMB37.4 million (31 December 2017: approximately RMB36.4 million). The Group has no outstanding interest-bearing bank loans as at 31 December 2018 (31 December 2017: Nil). As at 31 December 2018, the current ratio, being the ratio of current assets to current liabilities, was approximately 7.1 (31 December 2017: 4.5).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

For the year ended 31 December 2018, the Group's total equity attributable to owners of the Company amounted to approximately RMB157.5 million (31 December 2017: approximately RMB152.7 million). The Group's equity attributable to owners of the Company included share capital and reserves.

FOREIGN EXCHANGE EXPOSURE RISKS

As the Group's business transactions are mainly conducted in RMB, the exposure of the Group to foreign exchange fluctuations was not significant. As at 31 December 2018, the Group was not a party of any foreign currency hedging instruments. However, the Group will review and monitor foreign exchange exposure risks from time to time.

FINANCIAL POLICIES

The Group is exposed to liquidity risk in respect of settlement of its trade payables and financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

GEARING RATIO

The gearing ratio as at 31 December 2018 (defined as total debt divided by total equity, total debt represents all liabilities excluding contract liabilities, trade payables, tax payable, deferred tax liabilities and provision (if any)) was approximately 0.02 (31 December 2017: approximately 0.1).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had no significant capital commitments.

PLEDGE OF ASSETS

As of 31 December 2018, the Group had no asset pledge agreement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other future plans for material investments or capital assets as at 31 December 2018.

CONTINGENT LIABILITIES

As at the date of this report, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group engaged a total of 236 employees (2017: 232) including the Directors. For the year ended 31 December 2018, total staff costs amounted to approximately RMB10.0 million (2017: approximately RMB9.5 million). Remuneration (including employees' benefits) is maintained at an attractive level and reviewed on a periodic basis. Employees' salary and relevant benefits are determined on the basis of performance, qualification, experience, positions and the Group's business performance.

ENVIRONMENT POLICIES AND PERFORMANCE

The principal activity of the Group is governed by PRC environmental laws and regulations including the Environment Protection Law of the PRC. These laws and regulations cover a broad range of environmental matters, including air pollution, noise emissions, discharge of sewage and waste residues.

The Group recognises the importance of environmental protection and has implemented various environmental protection measures in order to minimise the operation impact on the environment and natural resources. The Group will continue to monitor the production process in order to ensure that it does not have significant adverse effect on the environment and that the Group's environment protection measures are adequate to ensure compliance with all applicable current local and national PRC regulations.

As at the date of this report, no administrative sanction, penalty or punishment has been imposed upon the Group for the violation of any environmental laws or regulations.

EVENTS AFTER THE REPORTING PERIOD

The Group has no discloseable matters which are yet to be disclosed.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2018, the Group did not have any significant investment, material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of listing of the shares of the Company as set out in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

CORPORATE GOVERNANCE REPORT

The Group is committed to ensuring high standards of corporate governance and business practices. The Group's corporate governance practices are based on the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the period from 20 January 2017 (the "Listing Date") to the date of this report (the "Period"), the Group has complied with the applicable code provisions of the CG Code.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Group and oversees the management of the business and affairs of the Group. The Directors are accountable for making decisions objectively in the best interest of the shareholders as a whole.

The day-to-day management, administration and operation of the Group are delegated to the executive Directors. The independent non-executive Directors are responsible for participating in Board meetings and to take the lead where potential conflicts of interest arise and for serving on the audit, remuneration nomination and any other governance committees, if invited.

The Board is responsible for making decisions on all major aspects of the Group's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

Board Composition

Up to the date of this report, the Board comprised six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Mr. Yi Cong *(Chief Executive Officer and compliance officer)* (appointed on 19 May 2016)
Mr. Liang Xing Jun (appointed on 19 May 2016)

Non-executive Director

Mr. Ma Gary Ming Fai (resigned on 28 September 2018)
Mr. Luo Guoqiang (appointed on 28 September 2018)

Independent Non-executive Directors

Mr. Chan Wing Kit (appointed on 17 December 2016)
Ms. Cao Shao Mu (appointed on 17 December 2016)
Mr. Kwok Sui Hung (appointed on 17 December 2016)

The details of Directors are set out in the section headed "Biographies of Board of Directors and Senior Management" on pages 42 to 44 of this report. Other than that the wife of Mr. Yi Cong is the sister of the wife of Mr. Liang Xing Jun, there are no family or other material relationships among members of the Board.

The Group is governed by the Board which has the responsibility for leadership and monitoring of the Group. The Directors are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs.

The Board sets strategies and directions for the Group's activities with a view to developing its business and enhancing shareholder value. The Board has delegated the daily operation and day-to-day management of the Group as well as the implementation of the Board's policies and strategies to the executive Directors and management of the Group.

Number of Meetings and Directors' Attendance

As the Group became listed on 20 January 2017, the Board will conduct at least 4 regular meetings a year. At least a 14-day notice will be given to all Directors before convening any Board meeting. All related information will be submitted to the Directors at least 3 days in advance. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's amended and restated articles of association (the "Articles").

For the year ended 31 December 2018, the Group held four Board meetings, one audit committee (the "Audit Committee") meeting, one remuneration committee (the "Remuneration Committee") meeting and one nomination committee (the "Nomination Committee") meeting. All minutes of the Board meetings and meetings of Board committees recorded in sufficient detail the matters considered by the Board and the decisions reached. Details of the attendance of Directors are as follows:

	Attendance/Number of meetings				
Name of Directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors:					
Mr. Yi Cong	4/4	–	–	–	1/1
Mr. Liang Xing Jun	4/4	–	–	–	1/1
Non-executive Director:					
Mr. Ma Gary Ming Fai	3/3	–	–	–	1/1
Mr. Luo Guoqiang	1/1	–	–	–	0/0
Independent Non-executive Directors:					
Mr. Chan Wing Kit	4/4	1/1	1/1	1/1	1/1
Ms. Cao Shao Mu	3/4	1/1	1/1	1/1	0/1
Mr. Kwok Sui Hung	3/4	1/1	1/1	1/1	1/1

The company secretary of the Company ("Company Secretary") attended all the scheduled Board meetings to report on matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Practice and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. At least 14 days' notice will be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given. Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Board committee meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the Company Secretary at the meetings and open for inspection by the Directors.

The Articles contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Appointment and Re-election of Directors

The Articles provide that at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation and that every Director shall be subject to retirement at an annual general meeting at least once every three years.

The non-executive Directors should be appointed for a specific term and subject to re-election. Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company. The appointment letter of each of the non-executive Director and independent non-executive Directors is for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other. The aforesaid appointment letters are subject to termination provisions therein and the retirement and re-election provisions in the Articles. Details of the appointment letters are summarised in the Report of the Board of Directors on page 35 of this report.

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Group recommends Directors to participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors (namely Mr. Yi Cong, Mr. Liang Xing Jun, Mr. Luo Guoqiang, Mr. Chan Wing Kit, Ms. Cao Shao Mu, Mr. Kwok Sui Hung, and Mr. Ma Gary Ming Fai) have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations. Records of the training received by the respective Directors are kept and updated by the Company Secretary.

Independent non-executive Directors

Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung were appointed as the independent non-executive Directors with effect from 17 December 2016.

The Company has received from each of its independent non-executive Directors written confirmation of his/her independence. The Company considers the independent non-executive Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

Non-executive Directors

Mr. Luo Guoqiang was appointed as the non-executive Director with effect from 28 September 2018.

Chairman and Chief Executive Officer

Ever since the resignation of Mr. Ma Gary Ming Fai on 28 September 2018, the Company has not had a chairman of the Board.

Mr. Yi Cong was appointed as the Chief Executive Officer and an executive Director of the Company on 19 May 2016 and, by the order of the Board, is also responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer is responsible for the management of the business of the Group, implementation of the policies and objectives set out by the Board and is accountable to the Board for the overall operation of the Group.

BOARD COMMITTEE

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung. Mr. Chan Wing Kit is the chairman of the Audit Committee.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the Group's internal control and risk management system, overseeing the balance, transparency and integrity of the Group's financial statements and the application of financial reporting principles, reviewing the relationship with the external auditor and its independence assessment and the adequacy of resources, qualifications and experience of the Group's accounting staff, their training programs and budget.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018. The full terms of reference setting out details of duties of the Audit Committee is available on the websites of the Stock Exchange and the Company. Details of the number of Audit Committee meetings held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 14 in this report.

Remuneration Committee

The Remuneration Committee comprised three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung. Mr. Chan Wing Kit is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review and approve the management's remuneration proposals, and ensure none of the Directors determine their own remuneration. The full terms of reference setting out details of duties of the Remuneration Committee is available on the websites of the Stock Exchange and the Company. Details of the number of Remuneration Committee meetings held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 14 in this report.

Senior Management's remuneration

Remuneration of the senior management of the Group (excluding Directors) for the year ended 31 December 2018 falls within the following band:

RMB	Number of individuals
Nil to RMB1,000,000	3

Details of the remuneration of the Directors and the five highest paid individuals are set out in note 11 to the consolidated financial statements.

Remuneration policy

The remuneration policy of the Group for the Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the performance of the Group and the individual performance of the Directors and senior management members.

Nomination Committee

The Nomination Committee comprised three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung. Mr. Chan Wing Kit is the chairman of the Nomination Committee.

The policy for the nomination of Directors, including the nomination procedure and process, are to invite nominations from Board members or Nomination Committee members. After undertaking adequate due diligence in respect of any such nominee, the Nomination Committee makes recommendations for the Board's consideration and approval. In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee makes recommendations to the Board for its consideration and recommendation, for the proposed candidates to stand for re-election at a general meeting.

The Nomination Committee considers the following criteria in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the relevant industry and other relevant sectors;

(c) commitment in respect of sufficient time, interest and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed under Rule 5.09 of the GEM Listing Rules for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

ACCOUNTABILITY AND AUDIT

Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report.

The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibilities of the Group's auditor, BDO Limited, are set out in the Independent Auditor's Report on pages 45 to 49 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the remuneration paid or payable to the Group's auditor was as follows:

Services rendered	HK$'000
Annual audit service for the year ended 31 December 2018	740
Total	740

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Group's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Group's policies and practices on compliance with legal and regulatory requirements, etc.

The Directors will review the Group's corporate governance policies and compliance with the CG Code each financial year and comply with the "comply or explain" principle in this corporate governance report.

BOARD DIVERSITY POLICY

The Company has adopted a Board Diversity Policy in accordance with the requirement as set out in the CG Code, which is summarized as below:

The Board Diversity Policy specifies that in designing the composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All Board members' appointment will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board.

The Nomination Committee has reviewed the Board Diversity Policy to ensure its effectiveness and considered that the Group achieved the objectives of the Board Diversity Policy.

SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("Code of Conduct") regarding securities transactions by the Directors. The Group has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the year ended 31 December 2018 and up to the date of this report.

COMMUNICATION WITH SHAREHOLDERS

The Group endeavors to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Group will ensure that there are separate resolutions for separate issues proposed at the general meetings. The Group will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

Significant Changes in the Constitutional Documents

During the Period, there has been no significant changes in the constitutional documents of the Group. The Articles are available on the websites of the Stock Exchange and the Company.

General Meetings with Shareholders

The Group's annual general meeting will be held on 14 June 2019.

SHAREHOLDERS' RIGHTS

(a) Convening of extraordinary general meeting on requisition by shareholders

Pursuant to article 64 of the Articles, 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 Group carrying the right of voting at general meetings of the Group shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 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 Group.

(b) Procedures for putting forward proposals at shareholders' meetings

Pursuant to the Articles, shareholders who wish to move a resolution may requisition the Company to convene an extraordinary general meeting following the procedures set out above.

(c) Enquiries to the Board

Shareholders may put forward enquiries to the Board in writing to the principal office of the Group in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the enquiries.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company (http://www.qtbgjj.com) has provided an effective communication platform to the public and the shareholders.

COMPANY SECRETARY

The Company engages Ms. Leung Yuk Yi, the director of Merrytime Corporate Services Limited, which is an external service provider, as the Company Secretary. Her primary contact at the Company is Mr. Yi Cong, the Chief Executive Officer.

All Directors have access to the advice and services of the Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, the Company Secretary is responsible for facilitating communications among Directors as well as with management.

The Company Secretary confirmed that she has taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In 2018, the Board, through the Audit Committee, has conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

In 2018, the Group has established an internal audit team to:

- assist in identifying and assessing the risks of the Group through a series of daily audit, investigations, workshops and interviews; and

- perform specific internal control review and assess effectiveness of the Group's risk management and internal control systems.

The results of the specific review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by our internal audit team to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of internal audit team as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

Our Enterprise Risk Management Framework

The Group has established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management — Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions.

Principal Risks

In 2018, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	Sensitivity to government policies, market competition, reputation risk
Operational Risks	Insufficient labour supply, workplace injury and employee security risk, disruption of IT system, pricing risk
Financial Risks	cashflow risk, credit risk, interest rates risk, exchange risk, inflation risk
Compliance	Risk related to occupation safety and health; change of listing rules and relevant company regulations and ordinances

Our Risk Control Mechanism

The Group adopts a "three lines of defence" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by internal audit team which is independent from the financial department of the Group. The Group maintains a risk register to keep track of all identified major risks of the Group, which is updated at least once annually by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

The risk management activities of the Group are performed by management on an ongoing process. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will through establishment of the internal audit team consistently review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

The internal audit function is currently exercised by the internal audit team which is independent from the financial department in the Group. The Directors have reviewed the need for an internal audit function and after taking into account the full range of considerations regarding the size, nature and complexity of the business of the Group, it would be more cost effective to have the internal audit team to perform internal audit function for the Group in order to meet its needs. Also, the Directors will continue to review at least annually the need for further enhancing the internal audit function.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has established and maintained the procedures and internal controls for the handling and dissemination of inside information. The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. The Group has strictly prohibited unauthorised use of confidential or inside information or any use of such information for the advantage of any individual. Inside information and other information which is required to be disclosed pursuant to the GEM Listing Rules will be announced on the respective websites of Stock Exchange and the Company in due course.

The Group is committed to continually improving its working environment, personnel training, supply chain management, corporate environmental protection and social responsibility while monitoring and implementing policies on environmental, social and governance matters in order to maintain its competitiveness in the industry, striving to provide investors with reasonable return and bring sustainable development to the Group.

This report has been compiled in accordance with Appendix 20 of the GEM Listing Rules of Hong Kong Exchanges and Clearing Limited, covering the period from 1 January 2018 to 31 December 2018. In the future, the Group will report on an annual basis to assist stakeholders in monitoring the Group's environmental, social and governance performance systematically.

A ENVIRONMENTAL PROTECTION

A1 Category of emissions

The main sources of greenhouse gas emissions are electricity, unleaded petrol, diesel and water for private passenger cars and light vehicles. Other emissions such as the release of noxious gases generated during paint spraying, dust generated during sanding, and solid hazardous waste including discarded paint buckets and used activated carbon.

A.1.1Types of emissions and relevant emissions data

The Group owns automobiles. In 2018, the Group generated 99,689.93 grams of nitrogen oxide (NOx), increased by 4.8% as compared to 95,102.02 grams in the same period of 2017, 519.96 grams of sulphur oxides (SOx), increased by 56.8% as compared to 331.61 grams in the same period of 2017, and 9,372.06 grams of particulate matter emissions from its vehicles, increased by 4.1% as compared to 8,999.49 grams in the same period of 2017.

A1.2 Total greenhouse gas emissions

On the basis of the business characteristics of the Group, the greenhouse gas emissions of the Group mainly come from the direct emissions from automobiles, the electricity consumed by factories and offices and indirect energy emissions from water.[1] Greenhouse gas emission units are tonnes of carbon dioxide equivalent. In 2018, the Group's direct emissions from vehicles amounted to 92.37 tonnes of carbon dioxide equivalent, increased by 57% as compared to 58.76 tonnes of carbon dioxide equivalent in 2017, mainly because the addition of a consumer vehicle and the increase in using company cars for staff business trips, and the increase in using private cars for delivery. In 2018, the indirect energy emissions from electricity use (Scope II) was 462.74 tonnes of carbon dioxide equivalent, increased by 30% as compared to 356.64 tonnes of carbon dioxide equivalent in 2017, mainly due to the increase in electricity use of machines for the production line of the Company. In 2018, Other indirect emissions from government departments of the Group in the treatment of potable water (Scope III) was 3.03 tonnes of carbon dioxide equivalent, decreased by 26% as compared to 4.11 tonnes of carbon dioxide equivalent in 2017.

1 Other direct emissions, including gas generated during paint spraying, have been further treated in accordance with laws and regulations and analyzed by third parties. The Company believed that the analysis of the report will have no material impact and therefore no individual analysis will be conducted.

In view of the above, in 2018, the total amount of greenhouse gas emissions of the Group was 558.14 tonnes of carbon dioxide equivalent, increased by 33% as compared to 419.51 tonnes of carbon dioxide equivalent in 2017, at a density of 11.43 tonnes of carbon dioxide equivalent for each one million RMB of cost of inventory[2], increased by 72.1% as compared to 6.64 tonnes of carbon dioxide equivalent, reasons for the increase: 1. Addition of a consumer vehicle and the increase in using company cars for staff business trips; 2. Increase in using private cars for delivery; 3. Increase in electricity use of machines for the production line of the Company; 4. Cost of inventory increased period-on-period by approximately 22.5% and thus density further increased.

2 The density is calculated based on the cost of inventory in the note of the consolidated financial statements of the Group for the years 2018 and 2017.

A1.3 Total amount and density of hazardous wastes generated

Since the hazardous waste can only be collected by the specialized contractor, the annual total amount of production and disposal of hazardous waste and information of density fluctuate more intensively. The total amount of hazardous waste during the reporting period is as follows.

Special case Hazardous waste	2018 Weight (tonnes)	2017 Weight (tonnes)	2018 Density[1]	2017 Density[1]	Remarks Composition included
Wasted paint ballast	5	2	0.10243	0.03165	Benzene, toluene, xylene
Wasted organic solution	0.8	0.6	0.01639	0.00949	n-Hexane, toluene, o-xylene
Wasted mineral oil	0.04	0.01	0.00082	0.00016	C15-36 alkanes, polycyclic aromatic hydrocarbons (PAHs), olefins, benzene series, phenols
Discarded paint buckets	3	1.58	0.06146	0.02510	Benzene, toluene, xylene
Used activated carbon	0.2	0.2	0.00410	0.00316	Benzene, toluene, xylene

1 The density is calculated based on the cost of inventory in the note of the consolidated financial statements of the Group for the years 2018 and 2017.

A1.4 Total amount and density of non-hazardous wastes

In 2018, 142 tonnes of non-hazardous wastes have been generated, including discarded fiberboards, decreased by approximately 21% as compared to 180 tonnes in 2017, at a density of 2.90900 for each one million RMB of cost of inventory, increased by 2.1% as compared to 2017.

A1.5 Methods of dealing with hazardous and non-hazardous wastes, emission reduction measures and the results obtained

The Group will be responsible for the collection of wastes generated during production, collecting and storing them with hazardous waste containers or bags, and entrusting the recycle and disposal to qualified recyclers so that wastes can be properly disposed of and the pollution to the environment can be reduced.

A1.6 Disposal of emissions

Type of emission	Treatment
Hazardous gases	In order to reduce the release of hazardous gases, the factory installed water spray facilities which can reduce the emission of painting mist through the water curtain. The painting mist would be settled through the water tank and savaged regularly. Also, the water of water curtain would be circulated instead of outward discharge.
Dusts	The Group installed a central suction and purification system that continuously supplies fresh air to the factory, maintaining the indoor temperature and humidity at comfortable levels and reducing potential hazards of fire or explosion and diluting hazardous air pollutants.
Solid wastes	The Group will comply with local regulations for all hazardous and non-hazardous wastes, collecting and storing them with hazardous waste containers or bags, and entrusting the recycle and disposal to qualified recyclers so that wastes can be properly disposed of and the pollution to the environment can be reduced.

A2 Resource usages

The Group requires its employees to save energy in the use of cars, electricity, water and paper. The use of cars during work should be upon the approval of the department manager. When the office equipment is not in use, the power should be turned off or switched to standby mode. Any case of dripping found should be promptly reported to the department of administration. No-paper work is encouraged at the offices, double- sided printing and reducing reprinting is encouraged in order to save paper.

Total consumption direct and/or indirect energy (such as electricity, gas or oil)

In 2018, the Group's electricity consumption was 711.09 MWh, increased by 29.8% as compared to 548.04 MWh in the same period of previous year, at an energy consumption density of 14.57 MWh for each on million RMB of the cost of inventory (8.67 MWh for each one million RMB of cost of inventory for the same period). Unleaded gasoline volume of the Group was 16,034.91 litres, increased by 71.3% as compared to 9,361 litres in the same period of previous year, at a density of 328.49 litres for each one million RMB of cost of inventory (148.13 litres for each one million RMB of cost of inventory for the same period in 2017). Diesel fuel consumption was 17,655.46 litres, increased by 46.5%, as compared to 12,049 litres in the same period of previous year, at a density of 361.69 litres for each one million RMB of cost of inventory (190.67 litres for each one million RMB of cost of inventory for the same period in 2017). Reasons for total consumption direct and/or indirect energy are the same reasons as A1.2 Total greenhouse gas emissions.

Describing the total water consumption

During the reporting year, the total water consumption of offices and factories was 7,148 cubic metres, decreased by 26.3%, as compared to 9,704 cubic metres in the same period of previous year, at 146.43 cubic metres for each one million RMB of cost of inventory, decreased by 4.6% as compared to the same period of previous year.

Consumption of packaging materials

During the reporting year, the total amount of packaging materials used was 64,097 for woven bags, 24,060 for corner articles, 14,508 rolls for binding and 75,019 for cardboard boxes. For the same period of 2017, the total amount of packaging materials used was 79,283 for woven bags, 24,292 for corner articles, 14,687 rolls for binding and 55,212 for cardboard boxes.

A3 Environment and Natural Resources

The Group has passed the ISO14001 authentication and established a comprehensive environmental management system. For the purpose of making the environmental management system going more smoothly, the Group provides related training to its employees, including environmental awareness, standards and guidelines, so that employees can understand and have the ability to conduct environmental management system implementation and maintenance work. The main objectives are to reduce the generation and emission of pollutants, promote the conservation of energy sources and raw materials, and achieve the goal of effective use of resources and environmental protection.

The Group will employ third-party companies annually to conduct inspections to ensure the discharging of waste water, the emission of exhaust gas and noise are compliance with local environmental laws and regulations.

B SOCIETY

B1 Employment

The Group seeks fairness and justice. It adopts open recruitment programs, including online recruitment advertisements and participation in job fairs held by third parties. In the recruitment process, the Group and the employees entered into labor contracts in accordance to the Labor Law, the Group does not allow any form of discrimination, including gender, sexual orientation, disability, age, religion, family background or other personal characteristics protected by law.

Total number of employees by gender, age group and geographical region

At the end of 2018, there were 231 full-time employees in Sichuan Greenland. In terms of gender, the proportion of male staff was about 64% and that of female staff was about 36%. According to employee category, administrative management accounts for about 3%, administrative staff about 39% and manufacturing staff about 58%. According to the age of employees, about 4% of the staff were aged 18-25, 22% aged 26 to 35, 45% aged 36 to 45, 27% aged 46 to 55, and 2% of the staff were over 55 years old; in terms of office location, staff in Sichuan office and factory accounted for about 89% while staff in Chongqing Branch Office accounted for about 11%.

Employee turnover rate by gender, age group and geographical region[3]

The annual turnover rate of the Group is about 3% (about 16% for same period of previous year). In terms of gender, turnover rate of males and females are about 13% and 14% respectively (about 16% for both sexes for same period of previous year). In terms of age group, the highest turnover rate was over 55 years of age, the turnover rate reaching 40%; followed by the group of 18 to 25 years old, among whom the turnover rate was 29%; followed by the group of 26-35 years old, among whom the turnover rate was 23% and the rate among the group of 46-55 years old was 9%; the lowest turnover rate appeared among the group of 36-45 years old, which was 8%; (For the same period of previous year: the highest turnover rate was among 18 to 25 years old, the turnover rate reaching 50%; followed by the group of over 55 years of age, among whom the turnover rate was 33%; followed by the group of 26-35 years old, among whom the turnover rate was 24% and the rate among the group of 46-55 years old was 13%; the lowest turnover rate appeared among the group of 36-45 years old, which was 8%); in terms of the office area, turnover rate in Chongqing was higher, reaching 22% while that in Sichuan was 12% (For the same period of previous year: turnover rate in Chongqing Branch Office was higher, reaching 20% while that in Sichuan Greenland was 15%).

B2 Health and safety

During the reporting period, work injury of 2 labors was recorded, both were slight injury caused by negligence during operation and the work injury rate was 0.87% 54 workdays were lost due to work injury. For the same period of 2017, there was no work injury was recorded and no workday was lost due to work injury.

The Group attaches great importance to the safety of its employees. To safeguard its employees' health and safety, the Group has set up a sound occupation and health management system to fully supervise and control work safety. The Group aims to prevent any accidents from the very beginning and to strictly abide by the work safety rules to reduce the chances of accidents.

[3] The annual turnover rates: Total number of departing employees for the year/(Total number of employees at the beginning of the year + Total number of newly hired employees for the year)

The Group also formulated a special emergency plan of production safety incidents to provide emergency responses to incidents of fire, flood control and restricted space operations. The emergency plan for flood control was formulated in accordance with the laws and regulations of Flood Prevention Law of the People's Republic of China and Emergency Response Plan for Accidents to reduce the casualties and property losses and safeguard the lives and safety of employees. During the reporting period, the Company added the low temperature ionized equipment for wasted gas treatment and flame detector for further preventing of the occurrence of safety accidents by addressing the roots and safeguarding the health and safety of employees.

B3 Development and training

The Group believes that employees are the maximal asset. To help employees succeed, the Group provides different types of training, including industrial safety, machinery operation and environmental protection, to enable employees to upgrade the skills they need in the industry. In terms of employee category, the average number of training time for mid-level management personnel was about 48 hours per year (about 56 hours per year for the same period of previous year), while that for sales staff and front-line staff was 35 hours respectively (24 hours per year respectively for the same period of previous year).

B4 Labor Guidelines

The Group prohibits child labor and forced labor. It also strictly complies with the relevant labor laws and regulations in China regarding working hours, rest and holidays. All employees must bring their ID cards, diplomas, social security cards and other documents when proceeding with the entry procedures. The Group never hires job seekers below 18. The Group also purchased social insurance and housing provident fund for employees according to state regulations. After signing labor contracts, the personnel department will apply for the social insurance on behalf of employees. No violation of regulations was found about the Group in the past.

B5 Supply Chain Management

The Group believes that suppliers have a significant impact on production activities and products. Therefore, the Group has a strict selection system in selecting suppliers to evaluate suppliers' environmental protection and quality requirements. Suppliers that are selected will be included in the list of approved suppliers, and each year the Group will review on the quality of goods supplied, delivery speed, product quality certification and other performance, the unqualified suppliers will be deleted from the list of approved suppliers.

In the reporting year, the Group ordered materials from approximately 350 suppliers (348 suppliers for the same period of previous year), by region, most of which were from Guangdong Province 146 and Sichuan Province 135, attributable to the aggregate amount of 40% and 35% respectively (For the same period of 2017: Guangdong Province 120 and Sichuan Province 138, attributable to the aggregate amount of 34% and 40% respectively), while others from Zhejiang Province, Jiangsu Province, Chongqing Municipality and other regions, no significant changes for both years.

B6 Product liability

The Group is committed to providing customers with high-quality office furniture and a good after-sales service, to maintain long-term relations of cooperation. The Group has a quality monitoring team, monitoring the quality of furniture from all aspects. No products sold or shipped were recovered for safety or health reasons and there was no complaint about products and services during the reporting year.

B7 Anti-corruption

The Group has formulated the Policy on Prevention of Commercial Corruption and Bribery and prohibited any form of fraud, including extortion and bribery, in the sales process. Employees shall not, directly or indirectly, provide, promise, give, demand or receive bribes or other misconduct and, in principle, employees are prohibited from directly or indirectly accepting gifts or any form of cash or cash equivalents. No corruption litigation took place during the reporting year.

B8 Community investment

As a member offering ongoing support to community development, the Group also organizes various voluntary activities in addition to business activities to help disadvantaged groups in the community. The Group regularly organizes volunteer activities and provides corresponding assistance so that employees can actively participate in volunteer work and an overall ethos would be cultivated. During the reporting year, both staff from Chengdu office and Chongqing office participated in tree planting activities; staff from Chengdu office conducted visits to senior citizens in the community multiple times.

REPORT OF THE BOARD OF DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products in the PRC. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan province, Chongqing city, Tibet Autonomous Region and Yunnan province. The Group operates a sales office, Sichuan Greenland, in Chengdu city and a branch office, the Chongqing Branch Office, in Chongqing city.

Although the results for the year declined to a certain extent as compared to the same period of 2017, the Company believes that the business strategy are still significant for the achievement of the profit of the Group.

Key Performance Indicators

The Group's tender sales were approximately RMB59.7 million, which represented approximately 79.7% of its total revenue for the year ended 31 December 2018. The following table sets out the breakdown of submitted tenders to potential customers for the year ended 31 December 2018:

	2018
Number of tenders submitted	323
Value of total tenders submitted	RMB 94.9 million
Number of tenders won	261
Success rate (by number of tenders submitted)	80.8%
Success rate (by value of tenders submitted)	55.6%

Future Developments and Prospects

Details of the future development of the business of the Group are set out in the section headed "Chief Executive Officer's Statement" of this report.

Principal Risks and Uncertainties

The Board believes major risk factors relevant to the Group have been disclosed in the section headed "Risk Factors" in the Prospectus. The analysis of other principal risks and uncertainties of the Group are summarised in the section headed "Principal Risks" of this report.

REPORT OF THE BOARD OF DIRECTORS

CORPORATE REORGANISATION AND PLACING

The Company was incorporated with limited liability in the Cayman Islands on 4 March 2016.

The companies comprising the Group underwent a reorganisation ("Reorganisation") to rationalise the structure of the Group in preparation for the initial public offering of the shares at par value of HK$0.01 each of the Company on GEM. Pursuant to the Reorganisation, the Group became the holding company of the subsidiaries comprising the Group on 19 December 2016. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

The shares of the Company were listed on GEM of the Stock Exchange on 20 January 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Group is investment holding. The principal activities of the Group's subsidiaries are set out in note 27 to the consolidated financial statements.

RESULTS AND DIVIDENDS

Dividend Policy

In deciding whether to propose a dividend and in determining the dividend amount, the Board takes into account, inter alia:

(i) the general financial condition of the Group;

(ii) capital and debt level of the Group;

(iii) future cash requirements and availability for business operations, business strategies and future development needs;

(iv) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(v) the general market conditions; and

(vi) any other factors that the Board deems appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and any other applicable laws, rule and regulations and the Articles. The dividend policy of the Company will be reviewed by the Board from time to time and there can be no assurance that a dividend will be proposed or declared in any specific period.

The financial performance of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the financial statements on pages 50 to 113 of this report.

The Board has resolved not to recommend the declaration of any interim or final dividend during the year ended 31 December 2018 (2017: Nil). No shareholder has agreed to waive dividends.

REPORT OF THE BOARD OF DIRECTORS

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the five years ended 31 December 2018 is set out on page 114 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 15 to the consolidated financial statements.

BANK BORROWING

During the year ended 31 December 2018, the Group has no outstanding bank loans.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2018.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2018 are set out in note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the distributable reserves of the Company amounted to approximately RMB151.6 million.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The shares of the Company were listed on the GEM of the Stock Exchange on 20 January 2017. During the period from the Listing Date to 31 December 2018, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries have bought or sold any shares in the Company.

DIRECTORS

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

Executive Directors:

Mr. Yi Cong (appointed on 19 May 2016)
Mr. Liang Xing Jun (appointed on 19 May 2016)

Non-executive Director:

Mr. Ma Gary Ming Fai (resigned on 28 September 2018)
Mr. Luo Guoqiang (appointed on 28 September 2018)

Independent Non-executive Directors:

Mr. Chan Wing Kit (appointed on 17 December 2016)
Ms. Cao Shao Mu (appointed on 17 December 2016)
Mr. Kwok Sui Hung (appointed on 17 December 2016)

Confirmation of Independence

Each independent non-executive Director has given the Group an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Group considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 42 to 44 of this report.

DIRECTORS' SERVICE CONTRACTS

(a) Executive Directors

Each of the executive Directors has entered into a service contract with the Group which became effective from the Listing Date and shall continue unless terminated in accordance with the terms therein. Under the terms of each service contract, the service contract may be terminated by not less than six months' notice served by either party on the other. The term of service of a Director is subject to retirement by rotation of Directors as set out in the Articles.

(b) Non-executive Director and independent non-executive Directors

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Group. Under the terms of the appointment letter, the appointment shall be for a term of three years commencing from the Listing Date, or in the case of Mr. Luo Guoqiang, 28 September 2018, and which may be terminated by not less than three months' notice served by either party on the other. The term of service of a Director is subject to the provisions on retirement by rotation of Directors as set out in the Articles.

Save as disclosed above, none of the Directors has or is proposed to have a service contract with the Group or any of its subsidiaries (other than contracts expiring or determinable by the Company or its subsidiaries, as applicable within one year without payment of compensation other than statutory compensation).

EMOLUMENT POLICY

The emoluments of the Directors are recommended by the Remuneration Committee by reference to the benchmarks in the market. The Group also looks into each individual Director's competence, duties, responsibilities and performance. Details of the Directors' remuneration and the five highest paid individuals are set out in note 11 to the consolidated financial statements.

REPORT OF THE BOARD OF DIRECTORS

PERMITTED INDEMNITY

The Articles provides that the Directors shall be indemnified and made harmless out of the assets and profits of the Group from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of their own fraud or dishonesty.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as otherwise disclosed, no transaction, arrangement or contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director or any entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

Save as disclosed, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Group were entered into or subsisted during the year ended 31 December 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as otherwise disclosed, no contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which the controlling shareholders of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

POTENTIAL COMPETING INTERESTS

As at 31 December 2018, Mr. Ma Gary Ming Fai ("Mr. Ma") remains the sole shareholder of Myshowhome International Limited ("Myshowhome International", together with its subsidiaries, the "Myshowhome Group"). Myshowhome International holds 100% interest in Myshowhome (Hong Kong) Limited ("Myshowhome HK"), which in turn holds 100% interest in Dongguan Shangpin Furniture Co., Ltd. (東莞市尚品家具有限公司) ("Shangpin"). Shangpin is a wholly foreign-owned enterprise established under the laws of the PRC on 10 July 2012 with a registered capital of HK$8 million and is principally engaged in the manufacturing of sofas and sofa-beds for export to places outside the PRC. Mr. Ma confirms that Myshowhome International and Myshowhome HK are both investment holding companies. As the Group manufactures and sells office furniture and although the Group's focus is on office furniture while Myshowhome Group's focus is on sofas and sofa-beds, Myshowhome Group may potentially compete with the Group. For further details, please refer to the section headed "Relationship with controlling shareholders" in the Prospectus.

Save as disclosed above, none of the controlling shareholders, the Directors and their respective close associates (as defined under the GEM Listing Rules) has any interest in a business apart from Group's business which competes or is likely to compete, directly or indirectly, with the Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules since the Listing Date and up to the date of this report.

COMPLIANCE WITH NON-COMPETITION UNDERTAKINGS

On 19 December 2016, Mr. Ma and Sun Universal Limited ("Sun Universal") (being controlling shareholders of the Group) entered into a deed of non-competition ("Deed of Non-Competition") in favour of the Company (for itself and each of its subsidiaries), pursuant to which each of Mr. Ma and Sun Universal, jointly and severally, warrants and undertakes with the Company that, immediately upon the Placing becoming unconditional, each of them shall not, and shall procure each of his/its close associates (other than the Group) shall not, whether on his/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, whether as a shareholder, director, employee, partner, agent or otherwise (other than being a director or shareholder of the Group or members of the Group), carry on or be engaged in, directly or indirectly, a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or may in any aspect compete directly or indirectly with the business or which is similar to the business currently and may from time to time be engaged by the Group (including but not limited to the production and sale of office furniture and businesses ancillary to any of the foregoing). For further details of the Deed of Non-Competition, please refer to the section headed "Relationship with Controlling Shareholders — Non-Competition Undertakings" in the Prospectus.

Mr. Ma and Sun Universal have all confirmed to the Company of his/its compliance with the Deed of Non-Competition from the Listing Date up to the date of this report. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by each of Mr. Ma and Sun Universal and duly enforced since the Listing Date and up to the date of this report.

DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors and chief executive in shares, underlying shares and debentures of the Company and its associated corporations

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the SFO, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to the required standard of dealings by directors were as follows:

Name of Director	Capacity/Nature of interest	Number of shares held/Interested	Percentage of shareholdings
Mr. Yi Cong	Interest of a spouse *(Note 1)*	116,580,000 (Long position)	17.40%

Notes:

1. Mr. Yi Cong is the spouse of Ms. Zhang Gui Hong. Accordingly, Mr. Yi Cong is deemed to be interested in all the shares which Ms. Zhang Gui Hong is interested for the purpose of Part XV of the SFO.

Save as disclosed above, as at the date of this report, none of the Directors and the chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the SFO, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to the required standard of dealings by Directors.

(b) Interests and short positions of the substantial shareholders in the shares and underlying shares

As at 31 December 2018, the following persons (not being a Director or chief executive of the Company) had or were deemed to have interests in shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules:

Name of Director	Capacity/Nature of interest	Number of shares held/Interested	Percentage of shareholdings
Sun Universal Limited	Beneficial owner	245,300,400 (Long position)	36.62%
Mr. Ma Gary Ming Fai	Interest in a controlled corporation (*Note 1*)	245,300,400 (Long position)	36.62%
Ms. Hung Fung King Margaret	Interest of spouse *(Note 2)*	245,300,400 (Long position)	36.62%
Brilliant Talent Global Limited	Beneficial owner *(Note 3)*	116,580,000 (Long position)	17.40%
Ms. Zhang Gui Hong	Interest in a controlled corporation *(Note 3)*	116,580,000 (Long position)	17.40%

Notes:

1. The entire issued share capital of Sun Universal Limited is legally and beneficially owned by Mr. Ma Gary Ming Fai. Accordingly, Mr. Ma Gary Ming Fai is deemed to be interested in the shares held by Sun Universal Limited for the purpose of Part XV of the SFO.

2. Ms. Hung Fung King Margaret is the spouse of Mr. Ma Gary Ming Fai. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma Gary Ming Fai for the purpose of Part XV of the SFO.

3. The entire issued share capital of Brilliant Talent Global Limited is owned by Ms. Zhang Gui Hong. Accordingly, Ms. Zhang Gui Hong is deemed to be interested in all the shares held by Brilliant Talent Global Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 31 December 2018, the Directors have not been notified by any person who had interests or short positions in the shares or underlying shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted the share option scheme of the Company (the "Share Option Scheme") by way of written resolutions on 19 December 2016, in which certain eligible participants including, among others, the Directors and employees of the Group may be granted options to subscribe for Shares in the Company. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of quality executives and employees. Since the adoption, no share option has been granted under the Share Option Scheme, and no share option has been granted as at 31 December 2018. A summary of the principal terms of the share option scheme is set out in the section headed "Appendix V — Statutory and general information — D. Share option scheme" in the Prospectus.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Octal Capital Limited as compliance adviser of the Company. As notified by Octal Capital Limited, neither it nor any of its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) or otherwise in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Octal Capital Limited on 5 March 2018 (the "Compliance Adviser Agreement")) as at 31 December 2018.

Pursuant to the above Compliance Adviser Agreement, Octal Capital Limited has received and will receive fees for acting as the Group's compliance adviser.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the aggregate amount of turnover attributed to the Group's largest and the five largest customers accounted for 16.3% and 37.3% (2017: 15.0% and 32.5%) of the total revenue of the Group, respectively. The Group's purchase from the largest and the five largest suppliers accounted for 25.1% and 44.1% (2017: 44.0% and 57.7%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2018 did the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) have any interest in the Group's major customers or suppliers.

CONNECTED/RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group had not entered into any connected transaction or continuing connected transaction that is not exempted under Rule 20.71 of the GEM Listing Rules.

Remuneration to Directors described in note 30 to the Group's consolidated financial statements are continuing connected transactions exempt from the connected transaction requirements under Rule 20.93 of the GEM Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Group are set out in the Corporate Governance Report on pages 13 to 24 of this report.

PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, as of 31 December 2018, the Company has maintained the public float as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Articles and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlements to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from Tuesday, 11 June 2019 to Friday, 14 June 2019, both days inclusive, during which no transfer of shares of the Company will be effected. In the case of shares of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 June 2019.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by BDO Limited, who will, being eligible, offer itself for reappointment as the auditor of the Company at the forthcoming annual general meeting. There has been no change in auditor since the date of the Listing.

By order of the Board of
Zhi Sheng Group Holdings Limited
Yi Cong
Executive Director

Hong Kong, 22 March 2019

EXECUTIVE DIRECTORS

Mr. Yi Cong (易聰), aged 55, is an executive Director, one of the founders of Sichuan Greenland, the Chief Executive Officer and the compliance officer of the Company. Mr. Yi was appointed as a Director on 19 May 2016 and re-designated as an executive Director on 19 December 2016. Mr. Yi joined the Group in September 1996 and is currently also a director and general manager of Sichuan Greenland. He is primarily responsible for the overall business strategies, planning and development of the Group, managing key customer relationships and overseeing sales and marketing of the Group. Mr. Yi graduated from Chengdu Institute of Radio Engineering (成都電訊工程學院) (now known as the University of Electronic Science and Technology of China (電子科技大學)) in September 1989 with a college diploma* (專科) majoring in wireless electronics. Mr. Yi was recognised by the Chengdu Chamber of Commerce for Furniture Industry* (成都市傢俱行業商會) as the "Person of the Year"* (年度風雲人物) in 2010 and an "Influential Entrepreneur in China Furniture Industry"* (影響中國行業傑出企業家) in 2012. Mr. Yi Cong's wife, Ms. Zhang Gui Hong ("Ms. Zhang"), is the sister of Mr. Liang Xing Jun's wife. Ms. Zhang is the sole shareholder of Brilliant Talent Global Limited, one of the substantial shareholders of the Group, which owns 116,580,000 shares of the Group. Accordingly, Mr. Yi Cong is deemed to be interested in all the shares which Ms. Zhang is interested for the purpose of Part XV of the SFO.

Mr. Liang Xing Jun (梁興軍), aged 55, was appointed as a Director on 19 May 2016 and re-designated as an executive Director on 19 December 2016. He is primarily responsible for the overall production management. Mr. Liang joined the Group in 1996 and has over 20 years of experience in the furniture industry. Mr. Liang is currently the head of the production department at Sichuan Greenland. Mr. Liang graduated from Chengdu Institute of Radio Engineering (成都電訊工程學院) (now known as the University of Electronic Science and Technology of China (中國電子科技大學)) in July 1984 with a college diploma* (專科) in vacuum electronic technology* (真空電子技術). Mr. Liang Xing Jun's wife is the sister of Mr. Yi Cong's wife.

NON-EXECUTIVE DIRECTOR

Mr. Luo Guoqiang (羅國強), aged 47, was appointed as a non-executive Director on 28 September 2018. He worked as a credit department officer during July 1991 to August 2003 before resigning from the Qiaotou branch of Industrial and Commercial Bank of China in Dongguan (中國工商銀行東莞橋頭支行). Since August 2003, Mr. Luo was appointed as a financial manager in a furniture company at Dongguan, mainly responsible for finance.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Kit (陳永傑), aged 47, was appointed as the independent non-executive Director of the Company on 17 December 2016. He was appointed as the chairman of the Audit Committee, Nomination Committee and Remuneration Committee on 19 December 2016. Mr. Chan obtained a Bachelor of Commerce degree from Monash University in February 1996. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a certified practicing accountant of CPA Australia. Mr. Chan has over 15 years of experience in the furniture industry. He acted as executive director and the chief executive officer of EJE (Hong Kong) Holdings Limited (壹家壹品(香港)控股有限公司) (stock code: 8101), formerly known as Jia Meng Holdings Limited (家夢控股有限公司), a company listed on GEM which is principally engaged in the design, manufacture and sale of mattresses and soft bed products, from September 2013 to January 2016, and has been responsible for the general management and operational decisions of the such company. Since March 2016, he has been an executive and the chief executive officer of Royale Furniture Holdings Limited (stock code: 1198), a company listed on the Main Board of the Stock Exchange in Hong Kong which is principally engaged in the design, manufacture and sales of various types of mid to high-end furniture, and has been responsible for assisting the chairman of that company in formulating the company's growth plan and the effective operation of its board of directors.

Ms. Cao Shao Mu (曹少慕), aged 57, was appointed as the independent non-executive Director of the Company on 17 December 2016. She was appointed as a member of Audit Committee, Nomination Committee and Remuneration Committee on 19 December 2016. Ms. Cao completed a selected on-job executive master of business administration course* (在職經理工商管理碩士(EMBA)精選課程研修班) in November 2004 at Yiyuan College, Sun Yat-Sen University. Ms. Cao worked in the sales department of Guangzhou Pepsi-Cola Beverage Co., Ltd from 2001 to 2014 and retired holding the position of senior district development manager.

Mr. Kwok Sui Hung (郭瑞雄), aged 58, was appointed as the independent non-executive Director of the Company on 17 December 2016. He was appointed as a member of Audit Committee, Nomination Committee and Remuneration Committee on 19 December 2016. Mr. Kwok completed a certificate programme in marketing management from the Hong Kong Management Association in June 1994. Since 1996, Mr. Kwok has been the general manager of Sun Champion Trading Limited, responsible for monitoring the operation of Hong Kong and China divisions of that company.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Chen Fei (陳飛), aged 41, is the vice general manager responsible for the sales function of the Group and the general manager of the Chengdu sales office. He joined the Group in June 1998 as a sales staff and was promoted in December 2011 as the sales director responsible for, inter alia, managing the sales operation of Sichuan Greenland. Since June 2013, Mr. Chen has been the vice general manager responsible for overseeing the sales department. From June 2013 to November 2014, he also acted as the general manager of Chongqing Branch Office. In December 2014, he was re-designated as the general manager of Sichuan Greenland. Mr. Chen received his college diploma* (專科) in international trade from Sichuan Radio and TV University (四川廣播電視大學) in July 1998 and later obtained a bachelor degree in business administration from China Central Radio and TV University (中央廣播電視大學) (now known as The Open University of China (國家開放大學)) in January 2012.

Ms. He Lu Ming (何鹿鳴), aged 42, is the head of the administration department. Ms. He received her master degree from Communist Party of China of Sichuan Province College* (中共四川省委黨校) majoring in regional economics in June 2011. She joined the Group in May 2002 and acted as the administration manager responsible for human resources, administrative and back-office matters. Since October 2010, Ms. He has been in charge of the administration department and has been the chairman of the labour union since October 2015.

Ms. Leung Yuk Yi (梁玉宜), aged 48, is the Company secretary of the Company. She is responsible for overall company secretarial matters of the Group. She obtained her bachelor of business degree majoring in marketing in July 1993 and later a master of practising accounting degree in October 1998 from Monash University in Australia. Ms. Leung was admitted as a member of the Hong Kong Institute of Certified Public Accountants in May 2003. She was a senior manager at the tax department of Ernst & Young from November 1999 to November 2013.

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF ZHI SHENG GROUP HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhi Sheng Group Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 50 to 113, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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"), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

Impairment assessment of trade receivables

Refer to Notes 2(a), 5(a) and 19(a) to the consolidated financial statements and the accounting policies in Note 4(f)(ii) to the consolidated financial statements.

As at 31 December 2018, the Group had trade receivables net of loss allowance of RMB16,286,000. The loss allowance provided for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 was RMB117,000 and further increased to RMB263,000 as at 31 December 2018. Loss allowance provided for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement.

We identified impairment assessment of trade receivables as a key audit matter because recognition of loss allowance for trade receivables is inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.

How our audit addressed the Key Audit Matter

Our procedures in relation to the directors' impairment assessment of trade receivables included:

- reviewing and assessing the Group's accounting policy for estimating expected credit losses;

- discussing with management for the recoverability of significant trade receivables that are past due over 180 days as at 31 December 2018 and the identification of credit-impaired receivables; and

- evaluating management's calculation of loss allowance by reviewing the inputs and information used by management applied in provision matrix, including testing the accuracy of the trade receivables ageing report, evaluating whether the expected credit loss rates applied with historical loss rates appropriately adjusted based on current economic conditions and forward-looking information.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include 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.

DIRECTORS' RESPONSIBILITIES 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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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

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

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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

From the matters communicated with the directors, 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.

BDO Limited
Certified Public Accountants
Chan Wing Fai
Practising Certificate no. P05443

Hong Kong, 22 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**74,866**	96,959
Cost of sales		**(48,814)**	(62,958)
Gross profit		**26,052**	34,001
Other income	8	**1,423**	392
Selling and distribution expenses		**(5,095)**	(5,428)
Administrative and other expenses		**(16,193)**	(13,813)
Finance costs	10	**–**	(1,035)
Profit before income tax	9	**6,187**	14,117
Income tax expense	12	**(1,208)**	(4,544)
Profit for the year attributable to the owners of the Company		**4,979**	9,573
Other comprehensive income/(expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**42**	(833)
Total comprehensive income for the year attributable to the owners of the Company		**5,021**	8,740
Earnings per share			
— Basic and diluted (RMB cents)	14	**0.74**	1.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**55,104**	52,400
Payments for leasehold land held for own use under operating leases	*16*	**14,206**	14,547
Deposits for the acquisition of property, plant and equipment		**–**	5,848
Total non-current assets		**69,310**	72,795
Current assets			
Payments for leasehold land held for own use under operating leases	*16*	**230**	230
Inventories	*17*	**17,632**	16,570
Contract assets	*18*	**4,766**	–
Trade and other receivables	*19*	**48,949**	56,469
Cash and cash equivalents	*20*	**37,438**	36,428
Total current assets		**109,015**	109,697
Total assets		**178,325**	182,492
Current liabilities			
Contract liabilities	*18*	**1,074**	–
Trade and other payables	*21*	**12,891**	20,985
Tax payable		**1,391**	3,158
Total current liabilities		**15,356**	24,143
Net current assets		**93,659**	85,554
Total assets less current liabilities		**162,969**	158,349
Non-current liabilities			
Deferred tax liabilities	*22*	**5,458**	5,697
Total non-current liabilities		**5,458**	5,697
Total liabilities		**20,814**	29,840
NET ASSETS		**157,511**	152,652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*23*	**5,923**	5,923
Reserves	*24*	**151,588**	146,729
TOTAL EQUITY		**157,511**	152,652

On behalf of the directors

Yi Cong
Director

Luo Guoqiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital RMB'000	Share premium *(Note 24(a))* RMB'000	Other reserve *(Note 24(b))* RMB'000	Statutory reserve *(Note 24(c))* RMB'000	Foreign exchange reserve *(Note 24(d))* RMB'000	Retained Earnings *(Note 24(e))* RMB'000	Total RMB'000
As at 1 January 2017	–	80,702	(11,131)	1,872	(8,180)	17,439	80,702
Profit for the year	–	–	–	–	–	9,573	9,573
Other comprehensive expense:							
Exchange difference arising on translating of foreign operations	–	–	–	–	(833)	–	(833)
Total comprehensive income for the year	–	–	–	–	(833)	9,573	8,740
Capitalisation issue (Note 23(a))	3,554	(3,554)	–	–	–	–	–
Issue of shares upon the Placing (Note 23(b))	2,369	71,075	–	–	–	–	73,444
Transaction cost attributable to the issue of shares	–	(10,234)	–	–	–	–	(10,234)
Transfer to statutory reserve	–	–	–	1,471	–	(1,471)	–
As at 31 December 2017	**5,923**	**137,989**	**(11,131)**	**3,343**	**(9,013)**	**25,541**	**152,652**
Adjustment on adoption of HKFRS 9 (Note 2.1(a)(ii))	**–**	**–**	**–**	**–**	**–**	**(162)**	**(162)**
As at 1 January 2018 (restated)	**5,923**	**137,989**	**(11,131)**	**3,343**	**(9,013)**	**25,379**	**152,490**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**4,979**	**4,979**
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**42**	**–**	**42**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**42**	**4,979**	**5,021**
Transfer to statutory reserve	**–**	**–**	**–**	**815**	**–**	**(815)**	**–**
As at 31 December 2018	**5,923**	**137,989**	**(11,131)**	**4,158**	**(8,971)**	**29,543**	**157,511**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit before income tax		**6,187**	14,117
Adjustments for:			
Amortisation of payments for leasehold land held for own use under operating leases	9	**341**	341
Depreciation of property, plant and equipment	9	**4,160**	3,766
Loss/(gain) on disposal of property, plant and equipment	9	**88**	(45)
Write-down of inventories to net realisable value	9	**369**	–
Impairment loss on trade receivables	9	**146**	–
Bank interest income	8	**(54)**	(81)
Interest income from other receivables	8	**(720)**	(117)
Interest income arising from unwinding contract assets with significant financing component	8	**(509)**	–
Finance costs	10	**–**	1,035
Operating profit before working capital changes		**10,008**	19,016
(Increase)/decrease in inventories		**(1,431)**	1,703
Increase in contract assets		**(2,059)**	–
Decrease/(increase) in trade and other receivables		**5,736**	(14,813)
Decrease in contract liabilities		**(4,598)**	–
Decrease in trade and other payables		**(2,520)**	(9,274)
Cash generated from/(used in) operations		**5,136**	(3,368)
Income tax paid		**(3,214)**	(1,861)
Interest received		**54**	198
Interest paid		**–**	(1,035)
Net cash generated from/(used in) operating activities		**1,976**	(6,066)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(1,163)**	(2,048)
Increase in deposits for the acquisition of property, plant and equipment		**–**	(5,848)
Proceeds from disposal of property, plant and equipment		**59**	67
Net cash used in investing activities		**(1,104)**	(7,829)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from issue of shares upon the Placing		–	73,444
Payment of new shares listing costs		–	(5,416)
Repayment of bank borrowing		–	(30,000)
Proceeds from other borrowing		–	6,249
Repayment of other borrowing		–	(6,249)
Repayments to directors		–	(644)
Repayments to shareholders		–	(13,845)
Net cash from financing activities		–	23,539
Net increase in cash and cash equivalents		**872**	9,644
Cash and cash equivalents at beginning of year		**36,428**	27,632
Effect of foreign exchange rate changes on cash and cash equivalents		**138**	(848)
Cash and cash equivalents at end of year		**37,438**	36,428
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**37,438**	36,428

1. GENERAL INFORMATION

Zhi Sheng Group Holdings Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 4 March 2016. The address of its registered office is Clifton House, 75 Fort Street, P.O. BOX 1350 Grand Cayman KY1-1108, the Cayman Islands. Its principal place of business is at Unit A, 17/F, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong and its headquarter is at 3/F, 222 Tianren Road, Gaoxin District, Chengdu City, Sichuan Province, the People's Republic of China (the "PRC").

The Company is an investment holding company and the Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in manufacture and sales of office furniture products in the PRC.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations ("the new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Other than as noted below, the adoption of the new HKFRSs has no material impact on the Group's financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

Under the transition method chosen, the Group recognises cumulative effect of initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and HKFRS 15:

	At 31 December 2017 RMB'000	Impact on initial adoption of HKFRS 9 RMB'000 Note (a)(ii)	Impact on initial adoption of HKFRS 15 RMB'000 Notes (b)(ii) and (iii)	At 1 January 2018 RMB'000 (restated)
ASSETS AND LIABILITIES				
Current assets				
Contract assets	–	–	5,556	5,556
Trade and other receivables	56,469	(162)	(5,556)	50,751
Total current assets	109,697	(162)	–	109,535
Current liabilities				
Contract liabilities	–	–	5,672	5,672
Trade and other payables	20,985	–	(5,672)	15,313
Total current liabilities	24,143	–	–	24,143
Net current assets	85,554	(162)	–	85,392
Net assets	152,652	(162)	–	152,490
EQUITY				
Retained earnings	25,541	(162)	–	25,379
Total equity	152,652	(162)	–	152,490

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(a) HKFRS 9 — Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost; (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) financial assets at FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(a) HKFRS 9 — Financial Instruments (continued)

(i) Classification and measurement of financial instruments (continued)

Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

The Group's financial assets, including deposits for the acquisition of property, plant and equipment, trade and other receivables and cash equivalents, classified as loans and receivables previously under HKAS 39 are classified as financial assets at amortised cost under HKFRS 9.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for contract assets, trade receivables and other financial assets at amortised cost earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment is immaterial for the current period.

Under HKFRS 9, the loss allowances are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for contract assets and trade receivables using HKFRS 9 simplified approach and has calculated the ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(a) HKFRS 9 — Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs (continued)

The Group applies the general approach to measure ECLs for all other financial assets which are subject to impairment under HKFRS 9. On this basis, the Group measures the loss allowance equal to 12-month ECLs, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECLs. The assessment of whether lifetime ECLs should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Group considers a financial asset to be in default when: (1) 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); or (2) the financial asset is more than 2 years past due.

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

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(a) HKFRS 9 — Financial Instruments (continued)

(ii) Impairment of financial assets (continued)

Impact of the ECL model

Impairment of contract assets and trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a lifetime ECLs for all contract assets and trade receivables. To measure the ECLs, contract assets and trade receivables have been grouped based on shared credit risk characteristics and the days past due. The lifetime ECLs on contract assets as at 1 January 2018 was immaterial, thus no loss allowance was provided for contract assets. The loss allowance for trade receivables as at 1 January 2018 was determined as follows:

	ECL rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Neither past due nor impaired	0.0	15,936	–
Less than 1 month past due	0.1	3,809	4
1 to 3 months past due	0.5	731	4
More than 3 months but less than 6 months past due	2.0	4,210	84
More than 6 months past due	5.0	500	25
		25,186	117

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 was RMB117,000. The loss allowance for trade receivables further increased to RMB263,000 as at 31 December 2018.

Impairment of other receivables

Other financial assets at amortised cost of the Group include deposits for the acquisition of property, plant and equipment and other receivables. Applying the ECLs model result in the recognition of ECL of RMB45,000 on 1 January 2018 and no further ECL provided for the year ended 31 December 2018.

As at 1 January 2018, the additional loss allowances of RMB162,000 has been recognised against the retained profits and charged against the respective assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(a) HKFRS 9 — Financial Instruments (continued)

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following table summarises the original classification and measurement (including impairment) of financial assets under HKAS 39 and HKFRS 9 at the date of initial application,1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 RMB'000	Carrying amount as at 1 January 2018 under HKFRS 9 RMB'000
Deposit for the acquisition of property, plant and equipment	Loans and receivables	Amortised cost	5,848	5,848
Trade and other receivables (excluding prepayments)	Loans and receivables	Amortised cost	35,649	35,487*
Cash and cash equivalents	Loans and receivables	Amortised cost	36,428	36,428

* The carrying amount as at 1 January 2018 under HKFRS 9 represented the gross carrying amount of trade and other receivables net of loss allowances of RMB162,000.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Transition

The Group elected to use the cumulative effect method for transition which allows the Group to recognise the cumulative effects of initially applying HKFRS 15, if any, as an adjustment to the opening balance of equity as at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarise amounts by which each financial statement line item was affected as at 31 December 2018 and the year ended 31 December 2018 upon the adoption of HKFRS 15. The adoption of HKFRS 15 had no impact on other comprehensive income or the Group's operating, investing and financing cash flows.

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Increase/ (decrease) RMB'000
Revenue (Note (iv))	(509)
Cost of sales	–
Gross profit	(509)
Other income (Note (iv))	509
Selling and distribution expenses	–
Administrative and other expenses	–
Finance costs	–
Profit before income tax	–
Income tax expense	–
Profit for the year attributable to the owners of the Company	–

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers (continued)

Consolidated statement of financial position as at 31 December 2018 (extract):

	Amount report under		
			Increase/
	HKFRS 15	HKAS 18	(decrease)
	RMB'000	RMB'000	RMB'000
Contract assets	4,766	–	4,766
Trade and other receivables	48,949	53,715	(4,766)
Contract liabilities	1,074	–	1,074
Trade and other payables	12,891	13,965	(1,074)

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's sales of office furniture products are set out below:

Note	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on financial statements
(i)	Customers obtain control of the office furniture products when the goods are delivered to, properly installed and have been accepted. Revenue is thus recognised at the point in time when customers accepted the office furniture products. There is generally only one performance obligation. Invoices are usually payable within 30 days or up to 180 days depends on contract terms.	Under HKAS 18, the Group recognises revenue when significant risk and rewards of ownership of office furniture products have been transferred to the customers. Under HKFRS 15, the Group recognises revenue when control of office furniture products have been transferred to the customers. Impact No difference in timing for revenue recognition. Under both HKAS 18 and HKFRS 15, the Group recognises revenue at the point in time when customers accept the office furniture products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers (continued)

Note	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on financial statements
(ii)	**Consideration received from customers in advance** Some of the Group's contracts with customers for sales of office furniture products request a portion of contract sum received from customers in advance as deposits.	Under HKAS 18, the Group includes consideration received from customers in advance for sales of office furniture in trade and other payables. Under HKFRS 15, contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. Thus, the Group classifies consideration received from customers in advance as contract liabilities. Impact Upon adoption of HKFRS 15, the Group reclassified consideration received from customers in advance of RMB5,672,000 as at 1 January 2018 from trade and other payables (Note 21) to contract liabilities (Note 18(b)). The consideration received from customers in advance of RMB1,074,000 as at 31 December 2018 are classified as contract liabilities (Note 18(b)).

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers (continued)

Note	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on financial statements
(iii)	**Quality assurance deposits ("QADs")** For some the Group's contracts with customers for sales of office furniture products, a portion of contract sum, normally around 5%, are withheld by customers as QADs until the end of quality assurance period.	Under HKAS 18, the Group includes QADs in trade receivables. Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Under HKFRS 15, the Group's entitlement to QADs is conditional upon satisfactory completion of quality assurance period. Thus, the Group recognises QADs as contract assets. Impact Upon adoption of HKFRS 15, the Group reclassified QADs of RMB5,556,000 as at 1 January 2018 from trade receivables (Note 19(a)) to contract assets (Note 18(a)). The outstanding QADs of RMB4,766,000 as at 31 December 2018 are classified as contract assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers (continued)

Note	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on financial statements
(iv)	**Significant financing component in respect of QADs with quality assurance period of 5 years** For sales of office furniture products to some financial institutions, QADs are withheld by customers for quality assurance period for 5 years according to internal procurement procedures set by these financial institutions. The duration of quality assurance period for sales to these customers are longer than sales to other customers with industry norm of 2 to 3 years.	Under HKAS 18, revenue is measured at fair value of the consideration received or receivables. When the arrangement for deferred consideration which effectively constituted a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest and the difference between the fair value and the nominal amount of consideration is recognised as interest revenue. The directors consider that QAD to be received until the end of quality assurance period of 5 years effectively constituted a financing transaction. Thus, QADs with quality assurance period of 5 years are discounted to fair value reflect the time value of money. Additions to QADs during the year are discounted and results in decrease in revenue and trade receivables. Discounted QADs brought forward from prior years are unwound results in interest revenue credited to profit or loss which is included in revenue and increase in trade receivables.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(b) HKFRS 15 — Revenue from Contracts with Customers (continued)

Note	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on financial statements
(iv)	**Significant financing component in respect of QADs with quality assurance period of 5 years (continued)**	
		Under HKFRS 15, an entity has to adjust the transaction price for the time value of money when a contract contains a significant financing component. The promised amount of consideration for a significant financing component should be adjusted using the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. In the case of deferred payments, the entity shall present the effects of financing (interest income) separately from revenue from contracts with customers in profit or loss. The directors consider that QAD with quality assurance period for 5 years is a significant financing component in the contract. In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component. The accounting treatment is similar to those applied in HKAS 18, except that effect of financing i.e. interest income should be presented separately from revenue in profit or loss. Impact The Group's interest income arising from unwinding the discounted QADs brought forward from prior years of RMB509,000 during the year ended 31 December 2018 are reclassified from revenue to other income (Note 8).

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.1 Adoption of new/revised HKFRSs — effective 1 January 2018 (continued)

(c) Amendments HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption
5 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

2.2 New/revised HKFRSs that have been issued but are not yet effective (continued)

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which are likely to have significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Total operating lease commitments of the Group in respect of office premises and a warehouse as at 31 December 2018 amounted to approximately RMB3,394,000 (Note 25). The directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited.

(b) Basis of measurement

The consolidated financial statements have been prepared under historical cost basis. The measurement bases are fully described in the Note 4 below.

(c) Functional and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK$"). However, the financial statements are presented in Renminbi ("RMB") instead of its functional currency as RMB is the principal currency of the economic environment on which the Group operates.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less impairment loss, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates used for calculating depreciation are as follows:

Motor vehicles	10%–20%
Plant and machinery	10%–20%
Furniture and equipment	10%–20%
Leasehold improvements	20% or the lease term, whichever is shorter
Buildings	3.3%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(d) Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the period of the leases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leasing

The Group as lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Financial instruments

(A) Accounting policies applied from 1 January 2018

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Financial assets at amortised cost are assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. They are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(A) Accounting policies applied from 1 January 2018 (continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on contract assets, trade receivables and other financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for contract assets and trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortised cost, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group rebutted the presumption of a financial asset has increased credit risk significantly if it is more than 30 days past due based on the customers' past payment history and current ability of making payments. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(A) Accounting policies applied from 1 January 2018 (continued)

(ii) Impairment loss on financial assets (continued)

The Group rebutted the presumption of default under ECL model for a financial asset over 90 days past due based on the customers' past payment history and current ability of making payments. The Group considers a financial asset to be credit-impaired when: (1) the borrower 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); or (2) the financial asset is more than 2 years past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(A) Accounting policies applied from 1 January 2018 (continued)

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s.148 and s.149 of the Ordinance.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(B) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(B) Accounting policies applied until 31 December 2017 (continued)

(i) Financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

An impairment loss on loans and receivables is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(B) Accounting policies applied until 31 December 2017 (continued)

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred.

Financial liabilities at amortised cost including bank borrowing, trade payables, other payables, amounts due to directors and amounts due to shareholders are initially measured at fair value, net of directly attributable costs incurred and subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Hong Kong Companies Ordinance, Cap. 622, came into operation on 3 March 2014. Under the Ordinance shares of the Company do not have a nominal value. Consideration received or receivable for the issue of shares on or after 3 March 2014 is credited to share capital. Commissions and expenses are allowed to be deducted from share capital under s.148 and s.149 of the Ordinance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(B) Accounting policies applied until 31 December 2017 (continued)

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents 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.

(h) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturity of three months or less when acquired.

(i) Revenue recognition

(A) Accounting policies applied from 1 January 2018

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (continued)

(A) Accounting policies applied from 1 January 2018 (continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sales of office furniture products

Customers obtain control of the office furniture products when the goods are delivered to, installed and have been accepted by customers according to the contract terms. Revenue is thus recognised at the point in time when the customers accepted the office furniture products. There is generally only one performance obligation and the considerations include no variable amount. Invoices are usually payable within 30 days or up to 180 days.

Interest income

Interest income from bank deposits is accrued on a time apportionment basis using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (continued)

(A) Accounting policies applied from 1 January 2018 (continued)

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contractual liabilities are recognised as revenue when the Group performs under the contract.

Contract costs

The Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

- the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

- the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

(B) Accounting policies applied until 31 December 2017

The Group is principally engaged in the manufacture and sale of office furniture products.

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (continued)

(B) Accounting policies applied until 31 December 2017 (continued)

Sale of office furniture products

Sale of office furniture products is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon the completion of installation for office furniture products.

Interest income

Interest income from bank deposits is accrued on a time apportionment basis using the effective interest method.

(j) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

On consolidation, income and expense items of the Company and certain subsidiaries are translated into the presentation currency of the Group (i.e. RMB) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of the Company and certain subsidiaries are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

(l) Employee benefits

(i) Defined contribution retirement plan

The employees of the Group which operate in the PRC are required to participate in a central defined contribution pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

(ii) Other employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;

- payments for leasehold land held for own use under operating leases; and

- Other non-financial assets

An impairment loss is recognised as an expense immediately for the amount by which the asset's recoverable amount is estimated to be less than its carrying amount. Recoverable amount is the higher of fair value reflecting market conditions less costs to sell, 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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, the existence of which 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 of the Group;

(ii) has significant influence over the Group; or

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

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

(v) The entity is a post-employment benefit plan for the benefit of the employees of 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 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 and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Government grants

Government grants are recognised 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 revenue 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 in consolidated statement of financial position and consequently are effectively recognised in profit or loss over the useful life of the asset.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

In addition to information disclosed elsewhere in consolidated financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Allowance on impairment of financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Depreciation

The Group depreciated the property, plant and equipment on a straight-line basis with 5% savage value, over the estimated useful lives of five to thirty years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' best estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(c) Inventory provision

The management of the Group reviews the marketability of inventory items at each reporting date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each reporting date and makes provision for obsolete items.

(d) Income tax

The Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

6. SEGMENT REPORTING

(a) Reportable segments

During the year, the information reported to the executive directors of the Company, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRSs. Such information does not contain profit or loss information of particular product or service line or geographical area. Therefore, the executive directors of the Company have determined that the Group has only one single operating segment, which is manufacture and sale of office furniture products in the PRC. The executive directors of the Company allocate resources and assess performance on an aggregated basis.

(b) Geographical information

The Company is an investment holding company incorporated in the Cayman Islands and the principal place of the Group's operations is the PRC. Accordingly, the management determines the Group is domiciled in the PRC.

The following table provides an analysis of the Group's revenue from external customers.

	2018 RMB'000	2017 RMB'000
Revenue from external customers		
The PRC (domicile)	**74,866**	96,959

The geographical location of revenue allocated is based on the location at which the goods were delivered.

No geographical location of non-current assets is presented as all of the Group's non-current assets are physically based in the PRC.

(c) Information about a major customer

The Group's customer base is diversified and includes only the following customer with whom transactions have exceeded 10% of the Group's revenue. During the year, revenue derived from the customer is as follows:

	2018 RMB'000	2017 RMB'000
Customer A	**12,195**	14,559

7. REVENUE

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue recognised at a point in time		
Sale of office furniture products	**74,866**	96,959

(a) Disaggregated revenue information

	2018 RMB'000	2017 RMB'000
Type of customers		
PRC governmental departments	**11,824**	13,089
Financial institutions	**15,015**	18,993
Other entities	**48,027**	64,877
	74,866	96,959

Note: The disaggregated revenue information during year ended 31 December 2017 are prepared under HKAS 18, which is not updated upon adoption of HKFRS 15.

(b) Performance obligations

The Group's performance obligation is satisfied when the control of goods are transferred to customers, i.e. when office furniture products are delivered, installed and accepted by customers.

The Group's contracts usually have duration of one year or less from date of contract inception to date of satisfaction of performance obligation. The Group has applied the practical expedient and therefore does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less.

8. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Bank interest income	**54**	81
Exchange gain, net	**45**	17
Interest income from other receivables (Notes 19(b)(i) and (ii))	**720**	117
Interest income arising from unwinding contracts assets with significant financing component (Note)	**509**	–
Gain on disposal of property, plant and equipment	**–**	45
Subsidy income	**87**	132
Others	**8**	–
	1,423	392

Note: During the year ended 31 December 2017, interest income arising from unwinding discounted QADs of approximately RMB533,000 was included in revenue.

9. PROFIT BEFORE INCOME TAX

Profit before income tax expense is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
Auditor's remuneration	**624**	608
Amortisation of payments for leasehold land held for own use under operating leases	**341**	341
Cost of inventories recognised as expense	**48,813**	62,958
Write-down of inventories to net realisable value	**369**	–
Depreciation of property, plant and equipment	**4,160**	3,766
Loss/(gain) on disposal of property, plant and equipment	**88**	(45)
Impairment loss on trade receivables	**146**	–
Listing expenses	**–**	2,398
Operating lease charges on rental premises	**1,363**	1,348
Staff costs (including directors' remuneration (Note 11))		
— Salaries, allowances and benefits in kind	**7,733**	7,188
— Retirement benefit scheme contribution	**2,295**	2,317
	10,028	9,505

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	**–**	1,035

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' remuneration is disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2018					
Executive directors:					
Mr. Yi Cong	–	445	–	53	498
Mr. Liang Xing Jun	–	60	–	20	80
Non-executive directors:					
Mr. Ma Gary Ming Fai (Note (i))	–	–	–	–	–
Mr. Luo Guoqiang (Note (ii))	26	–	–	–	26
Independent non-executive directors:					
Mr. Chan Wing Kit	101	–	–	–	101
Ms. Cao Shao Mu	101	–	–	–	101
Mr. Kwok Sui Hung	101	–	–	–	101
	329	505	–	73	907

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2017					
Executive directors:					
Mr. Yi Cong	–	480	–	53	533
Mr. Liang Xing Jun	–	60	–	20	80
Non-executive director:					
Mr. Ma Gary Ming Fai	–	–	–	–	–
Independent non-executive directors:					
Mr. Chan Wing Kit	95	–	–	–	95
Ms. Cao Shao Mu	95	–	–	–	95
Mr. Kwok Sui Hung	95	–	–	–	95
	285	540	–	73	898

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Directors' remuneration (continued)

Notes:

(i) Resigned on 28 September 2018.

(ii) Appointed on 28 September 2018.

(iii) Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

(b) Five highest paid individuals

The five highest paid individuals consist of 4 directors of the Group for the year ended 31 December 2018 (2017: 4 directors). Details of whose remuneration are reflected in the analysis presented above. Details of remuneration of the remaining highest paid individual for the year ended 31 December 2018 (2017: 1 highest paid individual) are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**60**	61
Retirement benefits scheme contributions	**20**	22
	80	83

Their emoluments were within the following band:

	2018 Number of individual	2017 Number of individual
Nil to HK$1,000,000	**1**	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: nil).

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or compensation for loss of office.

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(c) Senior management

Emoluments paid or payable to members of senior management who are not directors were within the following band:

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

12. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax		
— tax for the year	**1,458**	4,943
— over-provision in respect of prior years	**(11)**	(160)
	1,447	4,783
Deferred tax (Note 22)	**(239)**	(239)
	1,208	4,544

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is not subject to income tax.

No Hong Kong profit tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from and earned in Hong Kong during the years ended 31 December 2018 and 2017.

Provision for the enterprise income tax in the PRC is calculated using the a statutory tax rate of 25% of the estimated assessable profits as determined in accordance with the relevant income tax laws in the PRC.

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of approximately RMB43,697,000 (2017: RMB36,340,000) as the Group is in a position to control the dividend policies of the subsidiary and it is probable that such amount will be reinvested in the foreseeable future.

12. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the years ended 31 December 2018 and 2017 can be reconciled to the accounting profit at applicable tax rate as follows:

	2018 RMB'000	2017 RMB'000
Profit before income tax	**6,187**	14,117
Tax calculated at tax rate of 25%	**1,547**	3,529
Tax effect of expenses not deductible for tax purposes	**794**	1,285
Tax effect of temporary differences not recognised	**(468)**	(112)
Tax effect of tax losses not recognised	**3**	2
Tax incentive	**(657)**	–
Over-provision in respect of prior years	**(11)**	(160)
Income tax expense	**1,208**	4,544

13. DIVIDENDS

No dividend has been paid or declared during the years ended 31 December 2018 and 2017 nor has any dividend been declared since the end of the reporting period.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the year ended 31 December 2018 of approximately RMB4,979,000 (2017: RMB9,573,000), and the basis of 670,000,000 ordinary shares of the Company in issue (2017: the basis of weighted average number of 656,783,562 ordinary shares of the Company deemed to be in issue during the year ended 31 December 2017, which was computed on the basis that the 402,000,000 ordinary shares of the Company in issue after the completion of the Reorganisation and the capitalisation issue has been issued on 1 January 2017).

There were no dilutive potential ordinary shares in issue for the years ended 31 December 2018 and 2017. Accordingly, the diluted earnings per share presented are the same as basic earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Total RMB'000
Cost						
At 1 January 2017	486	2,578	462	1,517	55,270	60,313
Additions	426	1,552	70	–	–	2,048
Disposals	(115)	–	–	–	–	(115)
Written off	(49)	(2)	(7)	(102)	–	(160)
At 31 December 2017 and 1 January 2018	748	4,128	525	1,415	55,270	62,086
Additions	106	2,818	9	4,078	–	7,011
Disposals	–	(367)	–	–	–	(367)
Written off	–	(57)	(3)	–	–	(60)
At 31 December 2018	854	6,522	531	5,493	55,270	68,670
Accumulated depreciation						
At 1 January 2017	(238)	(830)	(206)	(370)	(4,529)	(6,173)
Provided for the year	(98)	(418)	(71)	(914)	(2,265)	(3,766)
Disposals	100	–	–	–	–	100
Written off	47	2	7	97	–	153
At 31 December 2017 and 1 January 2018	(189)	(1,246)	(270)	(1,187)	(6,794)	(9,686)
Provided for the year	(142)	(771)	(74)	(908)	(2,265)	(4,160)
Disposals	–	233	–	–	–	233
Written off	–	44	3	–	–	47
At 31 December 2018	(331)	(1,740)	(341)	(2,095)	(9,059)	(13,566)
Net Book Value						
At 31 December 2018	523	4,782	190	3,398	46,211	55,104
At 31 December 2017	559	2,882	255	228	48,476	52,400

16. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	RMB'000
At 1 January 2017	15,118
Amortisation for the year	(341)
At 31 December 2017 and 1 January 2018	14,777
Amortisation for the year	(341)
At 31 December 2018	14,436

17. INVENTORIES

Inventories recognised at lower of cost or net realisable value are shown as follow:

	2018 RMB'000	2017 RMB'000
Raw materials	**3,833**	3,983
Work in progress	**1,422**	1,482
Finished goods	**12,377**	11,105
	17,632	16,570

During year ended 31 December 2018, the Group has written down RMB369,000 (2017: Nil) of its finished goods. The written down has been included in cost of sales.

18. CONTRACT BALANCES

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000 (restated)	As at 31 December 2017 RMB'000
Contract assets (Note (a))	**4,766**	5,556	–
Contract liabilities (Note (b))	**1,074**	5,672	–

The timing of revenue recognition and payments received from customers would affect the amount of trade receivables, contract assets and contract liabilities recognised as at the reporting date in the consolidated statements of financial position.

A portion of contract sum is generally required from customers at contract inception or acceptance of sales orders. Upon adoption of HKFRS 15, considerations received in advance from customers of RMB5,672,000 as at 1 January 2018 included in trade and other payables (Note 21) are now classified as contract liabilities (Note 18(b)).

The remainder of considerations is billed when the office furniture products are accepted by customers. Depends on the contract terms, payment of remainder consideration is generally due within 30 days or up to 180 days from invoice date.

For some contracts, a portion of contract sum, normally 5%, is withheld by some customers as QAD until the end of quality assurance period ranging from 6 months to 5 years depends on contract terms. Upon adoption of HKFRS 15, outstanding QADs of RMB5,556,000 as at 1 January 2018 included in trade receivables (Note 19(a)) are classified as contract assets (Note 18(a)).

18. CONTRACT BALANCES (CONTINUED)

(a) Contract assets

The contract assets represented the QADs withheld by customers for quality assurance in respect of office furniture products sold. Contract assets are initially recognised when office furniture products are accepted by the customers after delivery and installation but entitlement to QADs is conditional on the satisfactory completion of quality assurance period. Contract assets are transferred to trade receivables when quality assurance period is passed with satisfactory inspection result.

The Group discounted the QADs with quality assurance period of 5 years to present value to reflect the fair value of amount receivables as the contracts with long quality assurance period out of industry norm contain a financing component which provide the customers significant financing benefits due to deferred payments.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	2018 RMB'000
Within one year	**1,847**
More than one year	**2,919**
	4,766

The movements in contract assets during the year are as follows:

	RMB'000
At 31 December 2017	–
Reclassification on adoption of HKFRS 15 (Note 2.1(b)(iii))	5,556
At 1 January 2018 (restated)	5,556
Additions during the year	2,059
Transfer to trade receivables during the year	(3,358)
Unwinding QADs with significant financing component brought forward from prior years (Note 8)	509
At 31 December 2018	4,766

18. CONTRACT BALANCES (CONTINUED)

(a) Contract assets (continued)

The Group elected simplified approach to measure lifetime ECLs on contract assets using a provision matrix. The ECL rates for the measurement of the ECLs on contract assets are based on those of trade receivables as contract assets and trade receivables are from the same customer bases. No loss allowance was recognised for contract assets as the lifetime ECLs on contract assets is immaterial.

(b) Contract liabilities

The Group's contract liabilities represent considerations received in advance from customers as at the reporting date.

The movements in the Group's contract liabilities are as follows:

	RMB'000
At 31 December 2017	–
Reclassification on adoption of HKFRS 15 (Note 2.1(b)(ii))	5,672
At 1 January 2018 (restated)	5,672
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	(5,232)
Increase due to cash received, excluding amounts recognised during the year	634
At 31 December 2018	1,074

The Group expects to deliver and install the office furniture products to satisfy the remaining performance obligations of these contract liabilities within one year or less.

19. TRADE AND OTHER RECEIVABLES

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000 (restated)	As at 31 December 2017 RMB'000
Trade receivables (Note (a))	**18,549**	25,186	30,742
Other receivables (Note (b))	**3,855**	3,410	3,410
Deposits	**1,389**	1,497	1,497
Prepayments (Note (c))	**25,464**	20,820	20,820
	49,257	50,913	56,469
Less: Loss allowances	**(308)**	(162)	–
	48,949	50,751	56,469

(a) Trade receivables

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000 (restated)	As at 31 December 2017 RMB'000
Trade receivables, gross (Note)	**18,549**	25,186	30,742
Less: Loss allowance	**(263)**	(117)	–
Trade receivables, net	**18,286**	25,069	30,742

Note: Upon the adoption of HKFRS 15, outstanding QADs of RMB5,556,000 as at 1 January 2018 included in trade receivables (Note 19(a)) are now classified as contract assets (Note 18(a)).

The credit periods on sales of goods for customers are normally within 30 days or up to 180 days from invoice date depends on contract terms.

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

The ageing analysis of trade receivables as of the end of reporting period, based on invoice dates, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**7,217**	16,390
More than 3 months	**11,332**	14,352
	18,549	30,742

The ageing analysis of trade receivables as of the end of reporting period, based on past due dates and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Current (not past due)	**7,279**	21,492
Less than 1 month past due	**684**	3,809
1 to 3 months past due	**2,033**	731
More than 3 months but less than 6 months past due	**5,742**	4,210
More than 6 months past due	**2,548**	500
	18,286	30,742

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default. Trade receivables that were past due related to a number of independent customers that have a good track record with the Group.

The Group did not hold any collateral as security or other credit enhancements over the trade receivables.

The movements in loss allowance of trade receivables were as follows:

	RMB'000
At 31 December 2017	–
Adjustment on adoption of HKFRS 9 (Note 2.1(a)(ii))	117
At 1 January 2018 (restated)	117
Loss allowance recognised during the year (Note 9)	146
At 31 December 2018	263

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

On adoption of HKFRS 9, the Group applied simplified approach to measure lifetime ECLs on the Group's trade receivables using a provision matrix. The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018.

	ECL rate %	Gross carrying amount RMB'000	Lifetime ECLs RMB'000	Net carrying amount RMB'000
Current (not past due)	0.0	7,279	–	7,279
Less than 1 month past due	0.1	685	1	684
1 to 3 months past due	0.5	2,043	10	2,033
More than 3 months but less than 6 months past due	2.0	5,859	117	5,742
More than 6 months past due	5.0	2,683	135	2,548
		18,549	263	18,286

(b) Other receivables

(i) As at 31 December 2018, among the other receivables, loan of RMB1,760,000 and interest receivable of RMB117,000 (2017: loan of RMB2,000,000) was due from an independent third party. The balance is unsecured, interest bearing at 6.5% per annum and repayable in one year.

(ii) During the year ended 31 December 2018, the Group had a loan of RMB15,061,000 to an independent third party which has been repaid during the year. As at 31 December 2018, among the other receivables, interest receivable of RMB603,000 was due from the independent third party.

(iii) The directors expect that the ECLs on above loan and interest receivables are immaterial.

(c) Prepayments

(i) At 31 December 2018, among the prepayments, approximately RMB24,367,000 (2017: RMB20,045,000) represented prepayments to suppliers for purchase of raw materials.

(ii) At 31 December 2017, among the prepayments, approximately RMB7,628,000 represented prepayments for listing expenses.

20. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balance	**37,438**	36,428

	2018 RMB'000	2017 RMB'000
Denominated in HK$	**210**	3,073
Denominated in RMB	**37,228**	33,355
	37,438	36,428

Cash at banks earns interest at interest rates 0.35% during the year ended 31 December 2018 (2017: 0.35%). Cash and cash equivalents denominated in RMB which is not a freely convertible currency.

21. TRADE AND OTHER PAYABLES

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000 (restated)	As at 31 December 2017 RMB'000
Trade payables (Note (a))	**4,496**	6,548	6,548
Other payables and accruals (Note (b))	**3,731**	3,442	3,442
Other tax payables	**4,664**	5,323	5,323
Receipts in advance (Note)	**–**	–	5,672
	12,891	15,313	20,985

Note: Upon adoption of HKFRS 15, considerations received in advance from customers of RMB5,672,000 as at 1 January 2018 included in trade and other payables (Note 21) are now classified as contract liabilities (Note 18(b)).

(a) Trade payables

The ageing analysis of the Group's trade payables as of the end of reporting period, based on invoice dates is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**459**	1,673
More than 3 months	**4,037**	4,875
	4,496	6,548

(b) Other payables and accruals

At 31 December 2017, among other payables and accruals, approximately RMB276,000 represented accrued listing expenses.

22. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustment arising from acquisition of a subsidiary RMB'000
At 1 January 2017	5,936
Credit to profit and loss for the year	(239)
At 31 December 2017 and 1 January 2018	5,697
Credit to profit and loss for the year	(239)
At 31 December 2018	5,458

23. SHARE CAPITAL — GROUP AND COMPANY

The movements in the issued ordinary share capital during the year are as follows:

	Number	RMB'000
Authorised:		
Ordinary shares of the Company of HK$0.01 each		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,500,000,000	13,493
Issued and fully paid:		
At 1 January 2017	10,000	–
Capitalisation issue (Note (a))	401,990,000	3,554
Issue of shares upon the placing (Note (b))	268,000,000	2,369
At 31 December 2017, 1 January 2018 and 31 December 2018	670,000,000	5,923

Notes:

(a) Pursuant to the written resolutions passed by the shareholders of the Company on 19 December 2016, the directors were authorised to capitalise the amount of HK$4,019,900 standing to the credit of the share premium account of the Company, a total of 401,990,000 ordinary shares credited as fully paid at par to the holders of shares of the Company on the register of members or principal share register of the Company at the close of business on 19 December 2016 in proportion (or as nearly as possible without fractions) to their then respective shareholdings of the Company (the "Capitalisation Issue").

23. SHARE CAPITAL — GROUP AND COMPANY (CONTINUED)

Notes: (continued)

(b) On 19 January 2017, the Company placed 268,000,000 new shares at HK$0.31 per share for a total gross proceeds of HK$83,080,000 (the "Placing"). The proceeds (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing) will be used to finance the implementation plan as set forth in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 30 December 2016. The proceeds of HK$2,680,000 representing the par value of the shares of the Company, were credited to the Company's share capital and the remaining proceeds of HK$80,400,000 before issuing expenses, were credited to share premium account of the Company.

24. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2018 and 2017 are presented in the consolidated statement of changes in equity.

Movements in the Company's reserves during the year are as follows:

	Share Premium (Note (a)) RMB'000	Foreign exchange reserves (Note (d)) RMB'000	Total RMB'000
On 1 January 2017	80,702	–	80,702
Other comprehensive expense:			
Exchange difference arising on translating of foreign operations	–	(3,440)	(3,440)
Total comprehensive loss for the year	–	(3,440)	(3,440)
Capitalisation issue (Note 23(a))	(3,554)	–	(3,554)
Issue of shares upon the placing (Note 23(b))	71,075	–	71,075
Transaction costs attributable to the issue of shares	(10,234)	–	(10,234)
At 31 December 2017 and 1 January 2018	137,989	(3,440)	134,549
Other comprehensive income:			
Exchange difference arising on translating of foreign operations	–	3,036	3,036
Total comprehensive income for the year	–	3,036	3,036
At 31 December 2018	137,989	(404)	137,585

24. RESERVES (CONTINUED)

The nature and purposes of reserves within equity are as follows:

(a) Share premium

Under the Companies Law (as revised) of the Cayman Islands, the share premium account of the Company is distributable to its shareholders, provided that immediately following the date on which the dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

(b) Other reserve

The other reserve of the Group represents the difference between the total equity of the subsidiaries and the aggregated share capital of the subsidiaries pursuant to the Reorganisation where the transfer of the subsidiaries to the Company were satisfied by issue of new shares from the Company.

(c) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the PRC subsidiaries, the subsidiaries are required to appropriate 10% of their annual net profits of the PRC subsidiary, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory reserve fund before distributing any net profit. When the balance of the statutory reserve fund reaches 50% of the registered capital of the subsidiary, any further appropriation is at the discretion of shareholders. The statutory reserve fund can be used to offset prior years' losses, if any, and may be capitalised as capital, provided that the remaining balance of the statutory reserve fund after such issue is not less than 25% of registered capital.

(d) Foreign exchange reserve

Gains/losses arising on retranslating the net assets of foreign operations into presentation currency.

(e) Retained earnings

Cumulative net gains and losses recognised in profit or loss.

25. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain office premises and warehouse under operating lease arrangements with lease terms of one to five years (2017: one to two years). At the end of the reporting period, the Group has future minimum rental payable under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**1,279**	673
Within two to five years	**2,115**	288
	3,394	961

26. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2018** **RMB'000**	2017 RMB'000
ASSET			
Non-current asset			
Investment in a subsidiary		**143,508**	140,472
TOTAL ASSET AND NET ASSET		**143,508**	140,472
EQUITY			
Equity attributable to owners of the Company			
Share capital	*23*	**5,923**	5,923
Reserves	*24*	**137,585**	134,549
TOTAL EQUITY		**143,508**	140,472

27. INTERESTS IN SUBSIDIARIES

The particulars of the Company's subsidiaries as at 31 December 2018 and 2017 are set out as follows:

Name of entity	Place and date of incorporation and form of business structure	Percentage of equity attributable to the Company		Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business
		Direct	Indirect		
Smart Raise BVI	The British Virgin Islands, Limited liability company	100	–	20,000 ordinary shares of US$1 each	Investment holding, Hong Kong
Smart Raise (Hong Kong) Limited	Hong Kong, Limited liability company	–	100	HK$20,000 divided into 20,000 ordinary shares	Investment holding, Hong Kong
四川青田家具實業有限公司	The PRC, Limited liability company	–	100	RMB61,000,000	Manufacture and sale of office furniture products, the PRC
成都頤事順達貿易有限公司	The PRC, Limited liability company	–	100	RMB1,000,000	Trading of items such as carpets, curtains and drapes, wallpaper, floorboards and panels, the PRC

28. RELATED PARTY TRANSACTION

Compensation of key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in Note 11, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	**329**	285
Salaries, allowance and benefits in kind	**865**	901
Pension scheme contributions	**113**	114
	1,307	1,300

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOW

Reconciliation of liabilities arising from financing activities is as follows:

	2018 **RMB'000**	*2017* *RMB'000*
Bank and other borrowings:		
At 1 January	–	30,000
Financing cash flows	–	(30,000)
At 31 December	–	–

30. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks in its ordinary course of operations. The financial risks include market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. Details are disclosed in the notes below. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the directors of the Company. The Group does not have written risk management policies. However, the directors of the Company meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks on timely and effective manner. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities recognised in the consolidated statement of financial position at the reporting date are categorised as follows:

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised costs:		
Deposits for the acquisition of property, plant and equipment	**–**	5,848
Contract assets	**4,766**	–
Trade and other receivables	**23,485**	35,649
Cash and cash equivalents	**37,438**	36,428
	65,689	77,925
Financial liabilities		
Financial liabilities at amortised costs:		
Trade and other payables	**12,891**	15,313
	12,891	15,313

(b) Fair value

The fair values of the Group's financial assets and liabilities as at 31 December 2018 and 2017 were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

(c) Currency risk

As the Group's revenue and expenses are mainly in RMB and most of the Group's assets and liabilities are denominated in RMB, which is the functional currency of the Company's primary subsidiaries, the currency risk resulting from the Group's daily operations is considered not significant. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk

The Group's exposure to interest rate risk relates principally to its bank deposits and interest-bearing bank borrowing. The Group's policy is to minimise interest rate risk exposure. To achieve this, the Group regularly assesses and monitors its needs for cash with reference to its business plans and day-to-day operations. Interest rates of cash and cash equivalents are disclosed in Note 20 above. The Group currently does not have an interest rate hedging policy.

The following table illustrates the sensitivity of the Group's profit for the year, and other components of equity due to a possible change in interest rates on its floating rate bank deposits with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2018 **RMB'000**	2017 RMB'000
Increase/(decrease) in profit for the year and retained earnings		
Increase/(decrease) in basis points("bp")		
+100 bp	**276**	276
-100 bp	**(276)**	(276)

The above sensitivity analysis is prepared based on the assumption that the bank deposits as at reporting dates existed throughout the whole respective financial year.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rates over the next twelve month period.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Credit risk

The Group's credit risk is primarily attributable to its contract assets, trade and other receivables and cash at banks. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of contract assets, trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing evaluations are performed on monthly basis. Debtors with balances that are more than 3 months overdue, further credit will only be granted under management's approval, otherwise, debtors are requested to settle all outstanding balances before any further credit are granted. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosures in respect of the Group's exposures to credit risk arising from contract assets and trade receivables are set out in Notes 18(a) and 19(a).

Cash at banks are deposits in bank with sound credit rating. Given their high credit rating, the Group does not expect to have high credit risk in this aspect.

(f) Liquidity risk

The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The contractual maturities of financial liabilities as shown in the consolidated statement of financial position are in less than one year for trade and other payables.

31. CAPITAL MANAGEMENT

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to shareholders, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The capital structure of the Group consists of debt and equity attributable to owners of the Company, comprising share capital and reserves.

32. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2018 were approved and authorised for issue by the board of directors on 22 March 2019.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	N/A	86,862	99,563	96,959	**74,866**
Profit for the year attributable to the owners of the Company	N/A	4,267	259	9,573	**4,979**
Total comprehensive income/(loss) for the year attributable to the owners of the Company	N/A	4,155	(7,809)	8,740	**5,021**

ASSETS AND LIABILITIES	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	197,828	167,671	161,908	182,492	**178,325**
Total liabilities	(182,981)	(148,669)	(81,206)	(29,840)	**(20,814)**
	14,847	19,002	80,702	152,652	**157,511**

The summary above does not form part of the audited consolidated financial statements.

No financial statements of the Group for the years ended 31 December 2012 and 2013 have been published.

The financial information for the years ended 31 December 2014 and 2015 were extracted from the Prospectus of the Group dated 30 December 2016. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years.