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

2019
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 Main Board. 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.

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.

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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

Room 747, 7/F
Star House
3 Salisbury Road
Tsim Sha Tsui
Kowloon, Hong Kong

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Luo Guoqiang

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

Octal Capital Limited
Room 801-805
8/F, Nan Fung Tower
88 Connaught Road Central
Hong Kong

AUDITOR

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

CORPORATE INFORMATION

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 results of the Group for the year ended 31 December 2019.

In 2019, China's macro economy was facing further downward pressure and uncertainty due to the continuing impact of China-US trade war. Affected by the above factors and the weaken overall domestic demand for office furniture in China, as well as the intense competition in the market, the Group's realized revenue in 2019 has shown significant decrease as compared to the same period in 2018.

To achieve sustainable growth, the Group decides to reorganize its original market strategy in the office furniture business and develop new businesses at the same time in the new year.

First of all, the Group decides to temporarily suspend the development of markets outside the five Southwest provinces, and concentrate resources to stabilize the markets of traditionally superior provinces in an effort to overcome adverse market conditions. The provinces and regions that have been decided to suspend the development include Guangdong Province, Jiangsu Province, Beijing City, Guangxi Autonomous Region, Gansu Province and Xinjiang Autonomous Region, etc., which is mainly due to more resources were exploiting in the early stages of developing new provinces and autonomous regions markets, but the benefits were discernable, which would be much hindered in the prevailing market conditions. In order to cope with severe challenges, the Group decides to concentrate resources to stabilize its market share in traditionally superior provinces such as Sichuan Province and Chongqing City, actively participate in the bidding business of various office furniture, and improve the bid winning rate by appropriately reducing gross profit of the projects and other measures. At the same time, the Group has also increased its investment in technology research and development every year, diversifying its product design, advancing with the times, and adapting to market trends in order to attract new customers and retain long-term customers in order to enhance the competitiveness of the Group's bidding and expand the market share. The Group also provides better payment terms for quality customers to establish long-term and stable business relationships. In addition, the Group will further implement stricter cost monitoring and control measures, reduce unnecessary energy consumption, and strive to achieve the profit targets set by the Group.

Secondly, to explore new businesses, on 15 January 2020, the Group completed the acquisition of Polyqueue Limited, a target company engaged in data centre business in Shanghai, China (details of which have been disclosed in the announcements dated 21 October 2019, 11 November 2019 and 12 December 2019 respectively, the circular dated 13 December 2019 and the announcement dated 15 January 2020 of the Company). With the 5G technology coming into commercial operation in the near future, the Group is of the view that the surge of data usage driven by digitisation and cloud computing will provide driving force for the continual growth of the data centre industry in the PRC. In addition, as the demand for the data centre services mainly originates from domestic customers, the impact of general market condition on the demand will be minimal with relatively stable income. It aims to establish diversified operations and strive for stable revenue, which is a strategic deployment to strengthen the Group's ability to overcome the economic difficulties.

CHIEF EXECUTIVE OFFICER'S STATEMENT

APPRECIATION

We foresee that the business environment in the future is full of uncertainty, and the competition in the office furniture market will become more intense, which will put pressure on profit margin. The biggest challenges faced by the Board and management are adapting to the environment, appropriately adjusting business strategies, striving to stabilize the markets in the five Southwest provinces, and strictly controlling various costs, while seizing all investment opportunities to minimize risks. We believe that the newly acquired Polyqueue Limited of the Group will gradually create value for the Company. The Company's diversified development and widening of revenue sources will help to overcome the recent difficulties in business operations, bring positive cash flow to the Group, strive for better corporate efficiency, and bring maximum returns to all shareholders. I am confident in meeting the challenges in 2020. 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, 25 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products. The products are sold to the domestic PRC market with a large proportion of its sales derived from Sichuan Province, Chongqing City, Guizhou Province and Tibet Autonomous Region etc. 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.

The impact of the 2019 "China-US trade war" continues, China's macro economy is facing further downward pressure. Under such economic slowdown, the prospects and growth of the customers' business may be significantly hindered, they may turn to be more cautious when purchasing and/or changing office furniture. In recent years, the national PRC government department has stipulated "No new construction of office buildings within the next five years, downsizing in office space, and the extended office furniture allocation, resulting in the reduction of government procurement of office furniture; Furthermore, the increasingly strict environmental regulation of governments at all levels in China increased the pressure on product cost. Affected by the above factors, the intense competition in the domestic market in China, the weakened overall demand, plus the outbreak of the novel coronavirus, the Group's development is facing a greater challenge, it is expected that the operation in the upcoming one to two years will still be under great pressure.

For the year ended 31 December 2019, the revenue of the Group was approximately RMB48.6 million, representing a decrease of approximately RMB26.3 million or 35.1% as compared to the same period in 2018. This was mainly due to the fact that, Sichuan Greenland's revenue in Sichuan Province, Yunnan Province and Tibet Autonomous Region had decreased by approximately RMB12.6 million as compared to the same period of 2018. Meanwhile, the revenue in Guizhou Province and Chongqing City increased by approximately RMB3.4 million as compared to the same period in 2018, making up for the decline in revenue of the above Southwest provinces. For Guangxi Autonomous Region, Guangdong Province, Jiangsu Province and Beijing City, due to the non-sustainable (or one-off) nature of the sales orders of bidding customers, the revenue in 2019 failed to sustain and the revenue of the above four provinces and autonomous regions decreased by approximately RMB14.5 million as compared to the same period in 2018. In addition, the revenue of Chongqing branch decreased by approximately RMB1.8 million as compared to the same period in 2018. The aforementioned factors jointly led to the significant decline in the revenue of the Group as compared with that of the same period of the last year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB48.6 million, representing a decrease of approximately RMB26.3 million or 35.1% as compared to the same period in 2018.

Revenue of Sichuan Greenland was approximately RMB41.6 million for the year ended 31 December 2019, representing a decrease of approximately RMB24.4 million or 37.0% as compared to the year ended 31 December 2018. Such decline was mainly attributable to:

(i) Revenue attributable to our historically strong sales provinces and autonomous regions such as Sichuan Province, Guizhou Province, Chongqing City, Yunnan Province, Tibet Autonomous Region decreased by approximately RMB9.2 million or 18.4%. Among them, Guizhou recorded revenue of approximately RMB5.2 million, representing an increase of approximately RMB3.0 million or 133.8% as compared with the year ended 31 December 2018, it was mainly due to the significant increase of sales of one financial institution. Revenue contributed by that customer was increased from approximately RMB2.1 million in 2018 to approximately RMB4.9 million in 2019. Chongqing City recorded revenue of RMB4.3 million, representing an increase of approximately RMB0.4 million or 11.6% as compared to the year ended 31 December 2018, it was mainly attributable to obtaining an order from a governmental department, revenue of which was approximately RMB1.8 million. Other provinces and autonomous regions represented a more significant decline. Among them, Sichuan Province recorded revenue of approximately RMB28.0 million, representing a decrease of approximately RMB11.1 million or 28.4% as compared to the year ended 31 December 2018. Yunnan Province recorded revenue of RMB0.2 million, representing a decrease of approximately RMB1.1 million or 83.4% as compared to the year ended 31 December 2018. Tibet Autonomous Region recorded revenue of approximately RMB2.9 million, representing a decrease of approximately RMB0.3 million or 9.5%. Major reasons for the decline in the revenue of Sichuan Province, Yunnan Province and Tibet Autonomous Region were: the revenue from financial institutions was decreased from approximately RMB10.3 million in 2018 to approximately RMB5.1 million in the same period of 2019, representing a decrease of approximately RMB5.2 million or 50.1%; Furthermore, the large customer orders obtained in 2019 were noticeably less than that of the same period in 2018, the average sales from new customers were lower, so the realized revenue did not make up for the decline in revenue of the above provinces and autonomous regions; and

(ii) For the same period in 2018, the realized revenue of Guangxi Autonomous Region and Jiangsu Province were RMB10.8 million and RMB1.8 million, respectively, while there were almost no realized revenue for the two province and autonomous region in 2019; and (iii) For the same period in 2018, the realized revenue of Guangdong Province and Beijing City were RMB1.6 million and RMB1.2 million, respectively, while in 2019, the aforesaid province and autonomous region represented a year-on-year decrease of 48.0% and 95.4%, respectively. The above four provinces and autonomous regions were the major reasons for the significant decline of the sales in this year.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2019, the revenue generated by the Chongqing branch was approximately RMB7.0 million, representing a decrease of approximately RMB1.8 million or 20.8% as compared with the year ended 31 December 2018. This was mainly due to the fact that for the year ended 31 December 2018, we achieved revenue of approximately RMB5.0 million from the three largest customers, while for the year ended 31 December 2019, we only achieved revenue of approximately RMB3.3 million from them, the revenue generated from and the average sales volume of new customers were relatively low.

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of goods purchased; (iii) labour costs; and (iv) production overheads such as depreciation, utilities bills and maintenance fee. For the year ended 31 December 2019, the Group's cost of sales amounted to approximately RMB37.9 million, representing a decrease of approximately RMB10.9 million or 22.4% from approximately RMB48.8 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in the Group's sales of approximately RMB26.3 million, analysis was done based on the cost of sales, among them (i) the decrease in the cost of raw materials used and cost of goods purchased of approximately RMB11.3 million; (ii) an increase in salary of production staff of approximately RMB0.5 million; and (iii) a decrease in other production expenses of approximately RMB0.1 million.

Gross profit

Gross profit decreased from approximately RMB26.1 million for the year ended 31 December 2018 to approximately RMB10.7 million for the year ended 31 December 2019. The gross profit margin decreased from approximately 34.8% for the year ended 31 December 2018 to approximately 22.0% for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in sales had passed the decrease in cost of sales. For the year ended 31 December 2019, the sales decreased by approximately RMB26.3 million or 35.1% as compared to the same period of 2018, while the cost of sales only showed a decrease of approximately RMB10.9 million or 22.4% as compared to the same period in 2018, resulting in a significant decrease in total gross profit and gross profit margin.

Other income

For the year ended 31 December 2019, the Group's other income amounted to approximately RMB905,000, representing a decrease of approximately 36.4% from approximately RMB1,423,000 for the year ended 31 December 2018. Such decrease was mainly attributable to the significant decrease in interest income from other receivables for this year as compared to that of the last year and interest income arising from unwinding of discounted quality assurance deposits was lower than that in the corresponding period of 2018 which exceeded the dividend income from financial assets at fair value through profit or loss.

Selling and distribution expenses

For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to approximately RMB8.6 million, representing an increase of approximately 69.7% from approximately RMB5.1 million for the year ended 31 December 2018. Such increase was mainly because the Group (i) commenced to amortise the renovation and refurbishment of the new exhibition hall at Chengdu, (ii) wrote off the display products in the preceding exhibition hall at Chongqing, and (iii) incurred higher installation and transportation costs as a result of the increase in scattered customers in remote areas. The above factors had led to the substantial increase in selling and distribution expenses as compared to the corresponding period in 2018.

Administrative and other expenses

For the year ended 31 December 2019, the Group's administrative and other expenses amounted to approximately RMB20.4 million, representing an increase of approximately 25.9% from approximately RMB16.2 million for the year ended 31 December 2018. Such increase was mainly attributable to (i) the increase in loss allowances for trade receivables of the Group, (ii) the addition of legal professional charges in respect of the acquisition of Polyqueue Limited by the Group, and (iii) the increase in the R&D expenses of innovative products for this year as compared with the same period of last year.

Income tax credit/expense

For the year ended 31 December 2019, the income tax credit of the Group amounted to approximately RMB1.1 million, while for the year ended 31 December 2018, the income tax expense was approximately RMB1.2 million. Such decrease was mainly attributable to: (i) the fact that the Group was not subject to income tax as it incurred loss during the respective period; (ii) deferred tax credit in respect of fair value adjustment arising from the acquisition of a subsidiary in prior year; and (iii) income tax credit for the current period because over-provision in prior year was reversed in the year.

Loss for the year attributable to the owners of the Company

For the year ended 31 December 2019, the loss for the year attributable to the owners of the Company amounted to approximately RMB16.5 million, while 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. The major reasons for turning profit to loss were (i) the decrease in revenue by 35.1% for the year ended 31 December 2019 as compared with the same period in 2018, resulting in a decrease in total gross profit of approximately RMB15.3 million; and (ii) the selling and distribution expenses, administrative and other expenses for the year increased by approximately RMB3.6 million and RMB4.2 million, respectively as compared with the same period in 2018. These were the major factors leading to the decline in profit.

Contract assets, trade and other receivables

Contract assets, trade and other receivables decreased from approximately RMB53.7 million as at 31 December 2018 to approximately RMB48.3 million as at 31 December 2019. Such decrease was mainly attributable to recovering customers' trade settlements on schedule and the decrease in net contract assets, trade and other receivables resulting from the increase in loss allowances for this year.

Contract liabilities, trade and other payables

Contract liabilities, trade and other payables increased from approximately RMB14.0 million as at 31 December 2018 to approximately RMB15.1 million as at 31 December 2019. Such increase was mainly because the increased order backlog in 2019 increased the amount of contract liabilities from Sichuan Greenland.

MANAGEMENT DISCUSSION AND ANALYSIS

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 (the "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 of the Company (the "Prospectus") with the Group's actual business progress up to 31 December 2019 (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 (the purchase of some machines was temporarily suspended due to the market downturn)

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 used 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.

According to the Company's announcement dated 19 February 2020, after considering the existing business condition and development of the Group, the Board has resolved to reallocate and change the use of proceeds from the Listing. As set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Company intended to deploy HK$10.9 million out of the net proceeds received from the Listing, for the purpose of the acquisition of new machinery and equipment. As at the date of that announcement, approximately HK$6.1 million has been used as intended. The un-utilised proceeds of approximately HK$4.8 million were deposited in the Group's bank accounts. This is mainly due to the intensified domestic market competition, the "China-US trade war", the PRC government policies which reduced government procurement of office furniture, together with the recent outbreak of the novel coronavirus, the Group expects to face challenges and pressures in its furniture business in the future. Therefore, the Company considered that there will not be a present need to further acquire the machinery and equipment for its furniture business as planned. As such, to maintain flexibility in funding for daily operation, the Company considers it is more reasonable and commercially beneficial to reallocate and change the use of the approximately HK$4.8 million balance of the proceeds as general working capital.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS FROM THE PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On 25 June 2019, pursuant to the terms and conditions of the placing agreements dated 6 June 2019 and 10 June 2019, the Company has placed a total of 134,000,000 ordinary shares to no less than six placees, who are independent third parties, at a price of HK$0.235 per share (the "Placing of New Shares Under General Mandate") (equivalent to approximately 16.67% of the issued share capital of the Company as enlarged by the 2019 Placing of New Shares Under General Mandate).

As of 31 December 2019, the Group has used the above net proceeds from the Placing of New Shares Under General Mandate for the following purposes:

	Use of proceeds in the same manner and proportion as stated in the announcement dated 25 June 2019 HK$ million	Actual use of proceeds as of 31 December 2019 HK$ million
Procurement of raw materials required for production	12.92	5.59
Increase in liquidity of the Group to provide customers with a longer credit period	7.07	4.50
Used as working capital of the Group to fulfill its obligations such as paying professional fees	10.77	4.75
	30.76	14.84

As at the date of this report, the above net proceeds have not been utilized and have been deposited as interest-bearing deposits in licensed banks in Hong Kong and the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

During the year ended 31 December 2019, the Group financed its operations by internally generated cash flow and net proceeds from the Placing of New Shares Under General Mandate. As at 31 December 2019, the net current assets of the Group amounted to approximately RMB107.2 million (31 December 2018: approximately RMB93.7 million), including bank balances and cash of approximately RMB49.1 million (31 December 2018: approximately RMB37.4 million). The Group has no outstanding interest-bearing bank loans as at 31 December 2019 (31 December 2018: Nil). As at 31 December 2019, the current ratio, being the ratio of current assets to current liabilities, was approximately 7.7 (31 December 2018: 7.1).

CAPITAL STRUCTURE

For the year ended 31 December 2019, the Group's total equity attributable to owners of the Company amounted to approximately RMB168.4 million (31 December 2018: approximately RMB157.5 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 2019, 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 2019 (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 0.03 (31 December 2018: approximately 0.02).

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had no significant capital commitments.

PLEDGE OF ASSETS

As at the date of this report, the land use rights and property of the Group's production facilities in Chengdu City were pledged as security for the working capital loans from China Citic Bank on 10 January 2020 in the amount of RMB30.0 million for the term of one year. Other than that, the Group had no asset pledge agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the matters in relation to the preparation for the acquisition of the entire issued share capital of Polyqueue Limited (details of which have been set out in the announcements dated 21 October 2019, 11 November 2019 and 12 December 2019, the circular dated 13 December 2019 and the announcement dated 15 January 2020 of the Company), the Group did not have other future plans for material investments or capital assets as of 31 December 2019.

CONTINGENT LIABILITIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group engaged a total of 197 employees (2018: 236) including the Directors. For the year ended 31 December 2019, total staff costs amounted to approximately RMB10.8 million (2018: approximately RMB10.0 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE REPORTING PERIOD

On 10 January 2020, the Group obtained a working capital loan from China Citic Bank in the amount of RMB30.0 million for the term of one year, secured by the land use rights and property of its production facilities in Chengdu City.

On 15 January 2020, all conditions under the Group's Sale and Purchase Agreement of the acquisition of Polyqueue Limited have been fulfilled and completion took place on 15 January 2020. Upon Completion, the Target Company has become a direct wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the enlarged Group.

On 19 February 2020, the Board resolved to reallocate and change the use of proceeds. The details have been disclosed in the announcement dated 19 February 2020 of the Company, and the section headed "Comparison Of Business Objectives With Actual Business Progress And Use Of Proceeds From The Placing" on pages 10 to 11 of this report.

Except for the events mentioned on the above, the Group has no discloseable matters which are yet to be disclosed as of the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save for the matters in relation to the preparation for the acquisition of the entire issued share capital of Polyqueue Limited (details of which have been set out in the announcements dated 21 October 2019, 11 November 2019 and 12 December 2019, the circular dated 13 December 2019 and the announcement dated 15 January 2020 of the Company), during the year ended 31 December 2019, the Group did not have any significant investment, material acquisitions nor disposals of subsidiaries and affiliated companies.

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. 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 50 to 51 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 2019, the Group held eight Board meetings, two audit committee (the "Audit Committee") meetings, 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	Annual General Meeting
Executive Directors:					
Mr. Yi Cong	7/8	–	–	–	1/1
Mr. Liang Xing Jun	8/8	–	–	–	1/1
Non-executive Director:					
Mr. Luo Guoqiang	8/8	–	–	–	1/1
Independent Non-executive Directors:					
Mr. Chan Wing Kit	7/8	2/2	1/1	1/1	1/1
Ms. Cao Shao Mu	8/8	2/2	1/1	1/1	0/1
Mr. Kwok Sui Hung	8/8	2/2	1/1	1/1	0/1

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 pages 38 to 39 of this report.

CORPORATE GOVERNANCE 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 and Mr. Kwok Sui Hung) 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.

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 2019. 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 17 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 17 in this report.

Senior Management's remuneration

Remuneration of the senior management of the Group (excluding Directors) for the year ended 31 December 2019 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.

CORPORATE GOVERNANCE REPORT

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 2019, 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 53 to 57 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2019, 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 2019	720
Audit service in respect of major acquisition of equity interest in Polyqueue Limited	280
Total	1,000

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.

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 2019 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 5 June 2020.

CORPORATE GOVERNANCE REPORT

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 2019.

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 2019, 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 2019, the Group engages Merrytime Corporate Services Limited 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 Merrytime Corporate Services Limited 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 Merrytime Corporate Services Limited 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 2019, 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	Intensed market competition and demand risk, reputation risk
Operational Risks	Insufficient labour supply, workplace injury and employee security risk
Financial Risks	cashflow risk, credit risk, interest rates risk
Compliance Risks	Change of listing rules, accounting standards, tax laws 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 Merrytime Corporate Services Limited. 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.

By the engagement of Merrytime Corporate Services Limited, the Company will 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 Group currently has no internal audit team. 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 engage a professional team of independent third parties 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group is committed to continually improving its performance on 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 2019 to 31 December 2019. 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 2019, the Group generated 89,657.27 grams of nitrogen oxide (NOx), decreased by 10.1% as compared to 99,689.93 grams in the same period of 2018, 373.67 grams of sulphur oxides (SOx), decreased by 28.1% as compared to 519.96 grams in the same period of 2018, and 8,452.32 grams of particulate matter emissions from its vehicles, decreased by 9.8% as compared to 9,372.06 grams in the same period of 2018.

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 2019, the Group's direct emissions from vehicles amounted to 66.40 tonnes of carbon dioxide equivalent, decreased by 28.1% as compared to 92.37 tonnes of carbon dioxide equivalent in 2018, mainly because the Group recorded a reduction of orders, resulting in a decrease of delivery. In 2019, the indirect energy emissions from electricity use (Scope II) was 459.57 tonnes of carbon dioxide equivalent, decreased by 0.7% as compared to 462.74 tonnes of carbon dioxide equivalent in 2018, mainly due to the decrease in orders which reduced the electricity consumption. In 2019, Other indirect emissions from government departments of the Group in the treatment of potable water (Scope III) was 2.22 tonnes of carbon dioxide equivalent, decreased by 26.7% as compared to 3.03 tonnes of carbon dioxide equivalent in 2018.

[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 2019, the total amount of greenhouse gas emissions of the Group was 528.19 tonnes of carbon dioxide equivalent, decreased by 5.4% as compared to 558.14 tonnes of carbon dioxide equivalent in 2018, at a density of 13.94 tonnes of carbon dioxide equivalent for each one million RMB of cost of inventory[2] , increased by 22.0% as compared to 11.43 tonnes of carbon dioxide equivalent, this was mainly attributable to the cost of inventory increased period-on-period by approximately 22.4% 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 2019.

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	2019 Weight (tonnes)	2018 Weight (tonnes)	2019 Density[1]	2018 Density[1]	Remarks Composition included
Wasted paint ballast	5	5	0.13199	0.10243	Benzene, toluene, xylene
Wasted organic solution	1.6	0.8	0.04224	0.01639	n-Hexane, toluene, o-xylene
Wasted mineral oil	0.02	0.04	0.00053	0.00082	C15-36 alkanes, polycyclic aromatic hydrocarbons (PAHs), olefins, benzene series, phenols
Discarded paint buckets	3	3	0.07919	0.06146	Benzene, toluene, xylene
Used activated carbon	0.3	0.2	0.00792	0.00410	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 2019.

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

In 2019, 185 tonnes of non-hazardous wastes have been generated, including discarded fiberboards, increased by approximately 30.3% as compared to 142 tonnes in 2018, at a density of 4.88346 for each one million RMB of cost of inventory, increased by 67.8% as compared to 2018.

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. Nopaper 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 2019, the Group's electricity consumption was 706.22 MWh, decreased by 0.7% as compared to 711.09 MWh in the same period of previous year, at an energy consumption density of 18.64 MWh for each on million RMB of the cost of inventory (14.57 MWh for each one million RMB of cost of inventory for the same period of 2018). In 2019, unleaded gasoline volume of the Group was 11,602.23 litres, decreased by 27.6% as compared to 16,034.91 litres in the same period of previous year, at a density of 306.15 litres for each one million RMB of cost of inventory (328.49 litres for each one million RMB of cost of inventory for the same period in 2018). Diesel fuel consumption was 12,615.92 litres, decreased by 28.5%, as compared to 17,655.46 litres in the same period of previous year, at a density of 332.9 litres for each one million RMB of cost of inventory (361.69 litres for each one million RMB of cost of inventory for the same period in 2018). Reasons for the decrease in 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 5,230 cubic metres, decreased by 26.8%, as compared to 7,148 cubic metres in the same period of previous year, at 138.01 cubic metres for each one million RMB of cost of inventory, decreased by 5.7% 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 78,179 for woven bags, 61,880 for corner articles, 10,039 rolls for binding and 66,911 for cardboard boxes. For the same period of 2018, 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.

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 are able 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 wastewater, 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 2019, there were 192 full-time employees in Sichuan Greenland. In terms of gender, the proportion of male staff was about 65% and that of female staff was about 35%. 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 3% of the staff were aged 18-25, 14% aged 26 to 35, 45% aged 36 to 45, 34% aged 46 to 55, and 4% 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 and geographical region[3]

The annual turnover rate of the Group3 is about 24% (about 13% for same period of previous year). In terms of gender, turnover rate of males and females are about 25% and 22% respectively (about 13% and 14% for males and females respectively for same period of previous year). In terms of the office area, turnover rate in Sichuan was higher, reaching 24% while that in Chongqing was 21% (For the same period of previous year: turnover rate in Chongqing Branch Office was higher, reaching 22% while that in Sichuan Greenland was 12%).

B2 Health and safety

During the reporting period, there was no work injury occurred and no workday was lost due to work injury. For the same period of 2018, 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.

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.

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 40 hours per year (about 48 hours per year for the same period of previous year), while that for sales staff and front-line staff was 30 hours respectively (35 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.

[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)

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 326 suppliers (350 suppliers for the same period of 2018), by region, most of which were from Sichuan Province (127) and Guangxi Autonomous Region (88), attributable to the aggregate amount of 39% and 27% respectively (For the same period of 2018: Guangdong Province (146) and Sichuan Province (135), attributable to the aggregate amount of 40% and 35% respectively), while others were from regions such as Guangdong Province and Chongqing City. This year, the number of suppliers decreased by 7% as compared to that of the last year, it also showed difference in regional distribution as orders decreased and the Group was selling new products to new customers.

B6 Product liability

The Group is committed to providing customers with high-quality office furniture and a good aftersales 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 2019.

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, Guizhou Province, 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.

The results for the year declined to a certain extent as compared to the same period of the previous year, in view of this, the Group has decided to restructure the marketing strategies for its office furniture business and develop new business, and expected to achieve sustainable growth. First, the Group decides to temporarily suspend the market development outside the five provinces of Southwest China, and to concentrate resources in provinces which has stable and traditional advantages, with the hope to go through the difficult times. Second, the Group decides to develop new business, by identifying different business opportunities to diversify development and broaden revenue sources. The Group acquired Polyqueue Limited, a target company in Shanghai, China, engaged in data centre business. The Group considers that entering the data centre industry would meet the benefit of the Group and shareholders as a whole, which enable the Group to maximise its corporate value, and let shareholders to benefit from it.

Key Performance Indicators

The Group's tender sales were approximately RMB38.8 million, which represented approximately 79.6% of its total revenue for the year ended 31 December 2019. The following table sets out the breakdown of submitted tenders to potential customers for the year ended 31 December 2019:

	2019
Number of tenders submitted	**297**
Value of total tenders submitted	**RMB121.2 million**
Number of tenders won	**220**
Success rate (by number of tenders submitted)	**74.1%**
Success rate (by value of tenders submitted)	**75.3%**

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 2019 and the financial position of the Group as at that date are set out in the financial statements on pages 58 to 117 of this report.

The Board has resolved not to recommend the declaration of any interim or final dividend during the year ended 31 December 2019 (2018: 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 2019 is set out on page 119 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 2019 are set out in note 15 to the consolidated financial statements.

BANK BORROWING

As of 31 December 2019, the Group did not have any outstanding bank borrowing. On 10 January 2020, the Group obtained a bank borrowing from China Citic Bank in the amount of RMB30.0 million for the term of one year, secured by the land use rights and property of its production facilities in Chengdu City.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2019.

SHARE CAPITAL

Details of movements in the share capital of the Group during the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the distributable reserves of the Company amounted to approximately RMB161.3 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 2019, 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.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS

The Directors of the Group during the year ended 31 December 2019 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. 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 50 to 52 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 Directors 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.

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 2019.

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 2019.

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 2019.

POTENTIAL COMPETING INTERESTS

As at 31 December 2019, 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 2019, 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 spouse *(Note 1)*	116,580,000 (Long position)	14.50%

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) Interest and short positions of the substantial shareholders in the shares and underlying shares

As at 31 December 2019, 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)	30.51%
Mr. Ma	Interest in a controlled corporation *(Note 1)*	245,300,400 (Long position)	30.51%
Ms. Hung Fung King Margaret	Interest of spouse *(Note 2)*	245,300,400 (Long position)	30.51%
Brilliant Talent Global Limited	Beneficial owner *(Note 3)*	116,580,000 (Long position)	14.50%
Ms. Zhang Gui Hong	Interest in a controlled corporation *(Note 3)*	116,580,000 (Long position)	14.50%

Notes:

1. The entire issued share capital of Sun Universal Limited is legally and beneficially owned by Mr. Ma. Accordingly, Mr. Ma 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. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma 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 2019, 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 share option scheme (the "Share Option Scheme") was approved and conditionally adopted by the Board and shareholders of the Company by way of written resolutions on 19 December 2016. As of 31 December 2019, no share option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

(a) Purpose of Share Option Scheme

The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

(b) Who may join

The Board may, at its absolute discretion, invite any person belonging to the following classes of participants, to take up options to subscribe for Shares:

(i) any eligible employee;

(ii) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any invested entity;

(iii) any supplier of goods or services to any member of the Group or any invested entity;

(iv) any customer of the Group or any invested entity;

(v) any person or entity that provides research, development or other technological support to the Group or any invested entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any invested entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; and

(viii) any other group or classes of participants who have contributed or may contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of the Group,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants or any discretionary object of a participant which is a discretionary trust;

Subject to the Share Option Scheme and the GEM Listing Rules, the Board shall be entitled at any time and from time to time within the period of the Share Option Scheme to offer to grant to any participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an option to subscribe for such number of shares as the Board may determine at a price calculated in accordance with sub-paragraph (f) below.

(c) Total number of shares to be issued

(i) The total number of shares which may be issued upon exercise of all options (excluding for this purpose options which have lapsed in accordance with the terms of the Share Option Scheme and any other schemes) to be granted under the Share Option Scheme and other schemes must not, in aggregate, exceed 10% of the Shares in issue on the Listing Date, i.e. 20 January 2017 (and subsequently, if refreshed, it must not exceed 10% of the issued share capital as at the date of such shareholders' approval of the refreshed limit). On the basis of 670,000,000 Shares in issue on the Listing Date, i.e. 20 January 2017, the limit will be equivalent to 67,000,000 Shares, representing 10% of the shares in issue as at the Listing Date.

(ii) The Company may refresh the 10% limit by seeking prior approval from Shareholders in a general meeting, provided that the total number of Shares which may be issued upon exercise of all options and any other share option schemes of the Company, in aggregate, must not exceed 10% of the total number of Shares in issue as at the date of such shareholders' approval of the refreshed limit. Options previously granted under the Share Option Scheme or any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other share option scheme) will not be counted for the purpose of calculating the refreshed limit.

(iii) The Company may also grant options beyond the 10% limit by seeking shareholders' approval in a general meeting, provided that the grantee(s) of such option(s) must be specifically identified by the Company before such approval is sought. In such event, the Company shall send a circular to its shareholders containing a generic description of the specified grantees who may be granted such options, the number and terms of such options to be granted, the purpose of granting such options, an explanation as to how the terms of the options serve such purpose and the information required by the GEM Listing Rules.

(iv) Notwithstanding the foregoing, the Company must not grant any options if the aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company, exceed 30% of the shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

As at the date of this report, there was no share option granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

(d) Granting of option to a Director, chief executive of the Company or substantial shareholder or any of their associates

No Participant shall be granted options which if exercised in full would result in the total number of shares already issued under all the options granted to him which have been exercised and issuable under all the options granted to him which are for the time being subsisting and unexercised in any 12-month period would exceed 1% of the total number of shares in issue, provided that if approved by shareholders in general meeting with such participant and his close associates (or his associates if such Participant is a connected person) abstaining from voting, the Company may make further grant of options to such participant (the "Further Grant") notwithstanding that the Further Grant would result in the total number of shares already issued under all the options granted to such participant which have been exercised and issuable under all the options granted to him which are for the time being subsisting and unexercised in any 12-month period exceed 1% of the total number of shares in issue.

Where options are proposed to be granted to a Director, chief executive of the Company or substantial shareholder, or any of their respective associates, the proposed grant must comply with the requirements of Rule 23.04(1) of the GEM Listing Rules and be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

If a grant of options to a substantial shareholder or an independent non-executive Director or their respective associates will result in the shares issued and to be issued upon exercise of all options granted and to be granted (whether exercised, cancelled or and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the relevant class of shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5.0 million,

then the proposed grant of options must be approved by the shareholders in a general meeting. At such general meeting, the grantee, his associates and all core connected persons of the Company must abstain from voting, unless they intend to vote against the proposed grant and provided that this intention to do so has been stated in the circular. The Company will send a circular to its shareholders containing all the information required under the GEM Listing Rules, including (i) details of the number and terms of the options (including the option period, performance targets (if any), basis of determination of subscription price and the rights attached to the shares or the option) to be granted to each substantial shareholder or independent non-executive Director, or any of their respective associates, which must be fixed before the shareholders meeting, and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price; (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee of the options) to the independent shareholders as to voting; and (iii) all other information as required by the GEM Listing Rules.

In addition, any change in the terms of the option granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates must also be approved by the shareholders in a general meeting.

The requirements for the grant of an option to a Director or chief executive of the Company set out in Rules 23.04(1), (2) and (3) shall not apply where the proposed grantee is only a proposed Director or chief executive of the Company.

(e) Minimum period of holding option and performance target

Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Basis for determining exercise price

The subscription price for the Shares subject to any particular option shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option but in any case the relevant subscription price shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant of the option; and (iii) the nominal value of a share.

For the purpose of determining the relevant subscription price where the shares have been listed on the Stock Exchange for less than five trading days preceding the date of the grant of the option, the issue price of the shares shall be deemed to be the closing price of the shares on the Listing Date for any trading day falling within the period before the shares are listed on the Stock Exchange.

(g) Time of acceptance and amount of payable upon acceptance of option

Upon acceptance of an offer for grant of option(s), the Participant shall pay HK$1.00 to the Company by way of consideration for the grant. The option will be offered for acceptance for a period of 21 days from the date of the grant.

(h) Period of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined by the Board absolutely, provided that such period shall not be more than ten years from the date upon which the option is deemed to be granted and accepted in accordance with the Share Option Scheme. The Board may, at its discretion, determine the minimum period for which the option has to be held before the option can be exercised. As at the date of this report, no share option has been granted or agreed to be granted under the Share Option Scheme by the Company.

REPORT OF THE BOARD OF DIRECTORS

INTEREST 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 2019.

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 2019, the aggregate amount of turnover attributed to the Group's largest and the five largest customers accounted for 22.8% and 39.5% (2018: 16.3% and 37.3%) of the total revenue of the Group, respectively. The Group's purchase from the largest and the five largest suppliers accounted for 30.4% and 56.6% (2018: 25.1% and 44.1%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2019 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 2019, 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 31 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.

CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Group are set out in the Corporate Governance Report on pages 16 to 27 of this report.

PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, as of 31 December 2019, the Company has maintained the public float as required under the GEM Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

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, 2 June 2020 to Friday, 5 June 2020, 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, 1 June 2020.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 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, 25 March 2020

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yi Cong (易聰), aged 56, 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 56, 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 DIRECTORS

Mr. Luo Guoqiang (羅國強), aged 48, 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 48, 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 16 years of experience in the furniture industry. He acted as executive director and the chief executive officer of EJE (Hong Kong) Holdings Limited (stock code: 8101) from September 2013 to January 2016, and had been responsible for general management and operational decisions. That company was listed on GEM and is principally engaged in the design, manufacture and sale of mattresses and soft bed products.

From March 2016 to August 2019, Mr. Chan was an executive director of Royale Furniture Holdings Limited (Stock Code: 1198, "Royale Furniture"). The principal business activities of Royale Furniture include manufacturing, trading and retailing home furniture in the PRC. Mr. Chan has been appointed as a chief financial officer of Royale Furniture since August 2019.

Ms. Cao Shao Mu (曹少慕), aged 58, 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 59, 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 42, 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 43, 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 49, 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

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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 58 to 117, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 5(a) and 21(a) to the consolidated financial statements and the accounting policies in Note 4(f)(ii) to the consolidated financial statements.

As at 31 December 2019, the Group had gross trade receivables of approximately RMB11,713,000 and loss allowance of RMB2,661,000. Loss allowance provided for trade receivables is 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 the 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 of expected credit losses;
- discussing with management for the recoverability of significant trade receivables that are past due as at year end and corroborating explanations from management with supporting evidences, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records; 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, 25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Revenue	*7*	**48,610**	74,866
Cost of sales		**(37,897)**	(48,814)
Gross profit		**10,713**	26,052
Other income	*8*	**905**	1,423
Selling and distribution expenses		**(8,645)**	(5,095)
Administrative and other expenses		**(20,387)**	(16,193)
Finance costs	*9*	**(130)**	–
(Loss)/profit before income tax	*10*	**(17,544)**	6,187
Income tax credit/(expense)	*12*	**1,073**	(1,208)
(Loss)/profit for the year attributable to the owners of the Company		**(16,471)**	4,979
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**392**	42
Total comprehensive (expense)/income for the year attributable to the owners of the Company		**(16,079)**	5,021
(Loss)/earnings per share			
— Basic and diluted (RMB cents)	*14*	**(2.23)**	0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**51,570**	55,104
Right-of-use assets	*16*	**15,993**	–
Payments for leasehold land held for own use under operating leases	*17*	**–**	14,206
Total non-current assets		**67,563**	69,310
Current assets			
Payments for leasehold land held for own use under operating leases	*17*	**–**	230
Financial assets at fair value through profit or loss	*18*	**4,115**	–
Inventories	*19*	**21,611**	17,632
Contract assets	*20*	**3,432**	4,766
Trade and other receivables	*21*	**44,917**	48,949
Cash and cash equivalents	*22*	**49,079**	37,438
Total current assets		**123,154**	109,015
Total assets		**190,717**	178,325
Current liabilities			
Contract liabilities	*20*	**3,810**	1,074
Trade and other payables	*23*	**11,279**	12,891
Lease liabilities	*24*	**901**	–
Tax payable		**–**	1,391
Total current liabilities		**15,990**	15,356
Net current assets		**107,164**	93,659
Total assets less current liabilities		**174,727**	162,969
Non-current liabilities			
Lease liabilities	*24*	**1,131**	–
Deferred tax liabilities	*25*	**5,219**	5,458
Total non-current liabilities		**6,350**	5,458
Total liabilities		**22,340**	20,814
NET ASSETS		**168,377**	157,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*26*	**7,100**	5,923
Reserves	*27*	**161,277**	151,588
TOTAL EQUITY		**168,377**	157,511

On behalf of the directors

Yi Cong	**Luo Guoqiang**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital RMB'000	Share premium (Note 27(a)) RMB'000	Other reserve (Note 27(b)) RMB'000	Statutory reserve (Note 27(c)) RMB'000	Foreign exchange reserve (Note 27(d)) RMB'000	Retained earnings (Note27(e)) RMB'000	Total RMB'000
As at 1 January 2018	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**
Adjustment on adoption of HKFRS 16 (Note 2(a))	**–**	**–**	**–**	**–**	**–**	**(69)**	**(69)**
As at 1 January 2019 (restated)	**5,923**	**137,989**	**(11,131)**	**4,158**	**(8,971)**	**29,474**	**157,442**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(16,471)**	**(16,471)**
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**392**	**–**	**392**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**392**	**(16,471)**	**(16,079)**
Issue of shares upon the Placing (Note 26)	**1,177**	**25,837**	**–**	**–**	**–**	**–**	**27,014**
As at 31 December 2019	**7,100**	**163,826**	**(11,131)**	**4,158**	**(8,579)**	**13,003**	**168,377**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flow from operating activities			
(Loss)/profit before income tax		**(17,544)**	6,187
Adjustments for:			
Amortisation of payments for leasehold land held for own use under operating leases	*10*	**–**	341
Depreciation of right-of-use assets	*10*	**1,502**	–
Depreciation of property, plant and equipment	*10*	**3,998**	4,160
Loss on disposal of property, plant and equipment	*10*	**8**	88
Write-down of inventories to net realisable value	*10*	**437**	369
Write-off of other receivables	*10*	**117**	–
Impairment loss on trade receivables	*10*	**2,398**	146
Bank interest income	*8*	**(26)**	(54)
Fair value changes on financial assets at fair value through profit or loss	*8*	**(29)**	–
Dividend income from financial assets at fair value through profit or loss	*8*	**(463)**	–
Interest income from other receivables	*8*	**(63)**	(720)
Interest income arising from unwinding contract assets with significant financing component	*8*	**(154)**	(509)
Finance costs	*9*	**130**	–
Operating (loss)/profit before working capital changes		**(9,689)**	10,008
Increase in inventories		**(4,416)**	(1,431)
Decrease/(increase) in contract assets		**1,488**	(2,059)
(Increase)/decrease in trade and other receivables		**(5,899)**	5,736
Increase/(decrease) in contract liabilities		**2,736**	(4,598)
Decrease in trade and other payables		**(1,658)**	(2,520)
Cash (used in)/generated from operations		**(17,438)**	5,136
Income tax paid		**(557)**	(3,214)
Bank interest received		**26**	54
Net cash (used in)/generated from operating activities		**(17,969)**	1,976
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss		**(24,000)**	–
Redemption of financial assets at fair value through profit or loss		**20,377**	–
Increase in loan receivable		**2,417**	–
Purchase of debt instrument at amortised cost		**5,000**	–
Interest received		**63**	–
Purchases of property, plant and equipment		**(493)**	(1,163)
Proceeds from disposal of property, plant and equipment		**21**	59
Net cash generated from/(used in) investing activities		**3,385**	(1,104)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Cash flows from financing activities			
Proceed from issue of shares upon the Placing, net of transaction costs		**27,014**	–
Payment of lease liabilities		**(1,226)**	–
Net cash from financing activities		**25,788**	–
Net increase in cash and cash equivalents		**11,204**	872
Cash and cash equivalents at beginning of year		**37,438**	36,428
Effect of foreign exchange rate changes on cash and cash equivalents		**437**	138
Cash and cash equivalents at end of year		**49,079**	37,438
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**49,079**	37,438

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 Room 747, 7/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, 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")

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases has been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following table summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

Consolidated statement of financial position as at 1 January 2019	RMB'000
Non-current assets	
Increase in right-of-use assets	**17,357**
Decrease in payments for leasehold land held for own use under operating lease	**(14,206)**
Current assets	
Decrease in payments for leasehold land held for own use under operating lease	**(230)**
Current liabilities	
Increase in lease liabilities	**1,944**
Non-current liabilities	
Increase in lease liabilities	**1,046**
Equity	
Decrease in retained earnings	**(69)**

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Operating lease commitment as of 31 December 2018	3,394
Less: practical expedient for which lease term ended 12 months from the date of initial application	(159)
Less: future interest expenses	(245)
Total lease liabilities as of 1 January 2019	2,990

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.3%.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases (continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases (continued)

(iii) Accounting as a lessee (continued)

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

At date of initial application of HKFRS 16, the Group's payments for leasehold land held for own use under operating lease are reclassified to right-of-use assets. The Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. All of the Group's right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases (continued)

(iii) Accounting as a lessee (continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019 (continued)

HKFRS 16 — Leases (continued)

(iv) Transition (continued)

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at date of commencement of the lease contracts.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of commencement of the lease contracts. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedient: The exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

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

(b) 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.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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 directors of the Company do not expect the adoption of new HKFRSs will have any significant impact on the Group's financial statements.

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.

3. BASIS OF PREPARATION (CONTINUED)

(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

Accounting policy applied until 31 December 2018

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

(A) Accounting policies applied from 1 January 2019

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. All of the Group's right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leasing (continued)

(A) Accounting policies applied from 1 January 2019 (continued)

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(B) Accounting policies applied until 31 December 2018

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments

(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.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

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. 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.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (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 assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information demonstrates otherwise.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (continued)

(ii) Impairment loss on financial assets (continued)

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 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

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 cost 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.

(v) Equity instruments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (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 HKFRS 9.

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 statement 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

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)

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Revenue recognition (continued)

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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;

- right-of-use assets

- payments for leasehold land held for own use under operating leases (until 31 December 2018); 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Related parties (continued)

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.

(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:

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Allowance on impairment of financial assets

At each reporting date, the Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rate is initially based on the Group's historical observed default rates. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for expected credit losses individually.

At each reporting date, the Group assesses other financial assets at amortised cost 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.

(b) Depreciation

The Group depreciated the property, plant and equipment on a straight-line basis over the estimated useful lives of five to thirty years, starting from the date on which the assets are placed into productive use. The Group depreciated the right-of-use assets on straight-line basis over the shorter of estimated useful life or the lease term ranged from one to five years, starting from the commencement date of lease. 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 and right-of-use assets.

(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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market yield of property) when available and is required to make certain adjustments.

(f) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there are any indicators of impairment for all non-financial assets. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal ("FVLSD") and its value in use. The calculation of the FVLSD is based on available data from binding sales transactions at arm's length of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate to calculate the present values of those cash flows.

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.

6. SEGMENT REPORTING (CONTINUED)

(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.

	2019 RMB'000	2018 RMB'000
Revenue from external customers		
The PRC (domicile)	**48,610**	74,866

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:

	2019 RMB'000	2018 RMB'000
Customer A	**11,089**	12,195

7. REVENUE

An analysis of revenue is as follows:

	2019 **RMB'000**	2018 RMB'000
Revenue recognised at a point in time		
Sale of office furniture products	**48,610**	74,866

(a) Disaggregated revenue information

	2019 **RMB'000**	2018 RMB'000
Type of customers		
PRC governmental departments	**9,903**	11,824
Financial institutions	**12,736**	15,015
Other entities	**25,971**	48,027
	48,610	74,866

(b) Performance obligations

The Group's performance obligation is satisfied when 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

	2019 RMB'000	2018 RMB'000
Bank interest income	26	54
Exchange gain, net	–	45
Interest income from other receivables (Notes 21(b)(i) and (ii))	63	720
Interest income arising from unwinding contract assets with significant financing component	154	509
Dividend income from financial assets at fair value through profit or loss	463	–
Fair value changes on financial assets at fair value through profit or loss	29	–
Subsidy income	161	87
Others	9	8
	905	1,423

9. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expense on lease liabilities	130	–

10. (LOSS)/PROFIT BEFORE INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Auditor's remuneration	**635**	624
Amortisation of payments for leasehold land held for own use under operating leases	**–**	341
Cost of inventories recognised as expense	**37,897**	48,813
Write-down of inventories to net realisable value	**437**	369
Depreciation of right-of-use assets	**1,502**	–
Depreciation of property, plant and equipment	**3,998**	4,160
Loss on disposal of property, plant and equipment	**8**	88
Impairment loss on trade receivables	**2,398**	146
Write-off of other receivables	**117**	–
Operating lease charges on rental premises	**–**	1,363
Short term lease with application of recognition exemption under HKFRS16	**90**	–
Staff costs (including directors' remuneration (Note 11))		
— Salaries, allowances and benefits in kind	**8,516**	7,733
— Retirement benefit scheme contribution	**2,275**	2,295
	10,791	10,028

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 2019					
Executive directors:					
Mr. Yi Cong	–	480	–	63	543
Mr. Liang Xing Jun	–	60	–	19	79
Non-executive director:					
Mr. Luo Guoqiang (Note (ii))	106	–	–	–	106
Independent non-executive directors:					
Mr. Chan Wing Kit	106	–	–	–	106
Ms. Cao Shao Mu	106	–	–	–	106
Mr. Kwok Sui Hung	106	–	–	–	106
	424	540	–	82	1,046

	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

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 5 directors of the Group for the year ended 31 December 2019 (2018: 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 are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	–	60
Retirement benefits scheme contributions	–	20
	–	80

Their emoluments were within the following band:

	2019 Number of individual	2018 Number of individual
Nil to HK$1,000,000	–	1

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2019 (2018: 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:

	2019 Number of individuals	2018 Number of individuals
Nil to HK$1,000,000	**3**	3

12. INCOME TAX (CREDIT)/EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
— tax for the year	**–**	1,458
— over-provision in respect of prior years	**(834)**	(11)
	(834)	1,447
Deferred tax (Note 25)	**(239)**	(239)
Income tax (credit)/expense	**(1,073)**	1,208

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 2019 and 2018.

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 RMB33,402,000 (2018: RMB43,697,000) 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 (CREDIT)/EXPENSE (CONTINUED)

The income tax (credit)/expense for the years ended 31 December 2019 and 2018 can be reconciled to the accounting (loss)/profit at applicable tax rate as follows:

	2019 RMB'000	2018 RMB'000
(Loss)/profit before income tax	**(17,544)**	6,187
Tax calculated at tax rate of 25%	**(4,386)**	1,547
Tax effect of expenses not deductible for tax purposes	**1,188**	794
Tax effect of temporary differences not recognised	**281**	(468)
Tax effect of tax losses not recognised	**2,678**	3
Tax incentive	**–**	(657)
Over-provision in respect of prior years	**(834)**	(11)
Income tax (credit)/expense	**(1,073)**	1,208

As at 31 December 2019, certain subsidiaries of the Group have unused tax losses of RMB10,724,000 (2018: RMB12,000) available to offset against future profits that will be expired in five years. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of profit streams in the future.

13. DIVIDENDS

No dividend has been paid or declared during the years ended 31 December 2019 and 2018 nor has any dividend been declared since the end of the reporting period.

14. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the loss for the year ended 31 December 2019 of approximately RMB16,471,000 (profit for the year 2018: RMB4,979,000), and the basis of weighted average number of 739,019,178 ordinary shares of the Company in issue (2018: the basis of 670,000,000 ordinary shares of the Company in issue during the year ended 31 December 2018).

There were no dilutive potential ordinary shares in issue for the years ended 31 December 2019 and 2018. 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 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 and 1 January 2019	854	6,522	531	5,493	55,270	68,670
Additions	–	–	–	493	–	493
Disposals	(193)	–	–	–	–	(193)
Written off	–	–	(2)	–	–	(2)
At 31 December 2019	661	6,522	529	5,986	55,270	68,968
Accumulated depreciation						
At 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 and 1 January 2019	(331)	(1,740)	(341)	(2,095)	(9,059)	(13,566)
Provided for the year	(150)	(713)	(54)	(816)	(2,265)	(3,998)
Disposals	164	–	–	–	–	164
Written off	–	–	2	–	–	2
At 31 December 2019	(317)	(2,453)	(393)	(2,911)	(11,324)	(17,398)
Net Book Value						
At 31 December 2019	344	4,069	136	3,075	43,946	51,570
At 31 December 2018	523	4,782	190	3,398	46,211	55,104

As the Group has incurred significant loss for current year and the management cannot reasonably estimate the profits for the coming years due to intense competition in office furniture industry. The Group determines the recoverable amount of buildings and leasehold land based on FVLSD.

Based on the valuation report from an independent professional valuer, as at 31 December 2019, the FVLSD of buildings of RMB43,864,000 was slightly lower than the carrying amount of buildings of RMB43,946,000. Since the difference was immaterial to the financial statements, no impairment loss was provided for buildings as at 31 December 2019.

16. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Office premises RMB'000	Warehouse RMB'000	Total RMB'000
Cost				
At 31 December 2018	–	–	–	–
Adjustment on adoption of HKFRS 16	17,408	4,089	–	21,497
At 1 January 2019 (restated)	17,408	4,089	–	21,497
Addition	–	–	138	138
At 31 December 2019	17,408	4,089	138	21,635
Accumulated depreciation				
At 31 December 2018	–	–	–	–
Adjustment on adoption of HKFRS 16	(2,972)	(1,168)	–	(4,140)
At 1 January 2019 (restated)	(2,972)	(1,168)	–	(4,140)
Provided for the year	(341)	(1,092)	(69)	(1,502)
At 31 December 2019	(3,313)	(2,260)	(69)	(5,642)
Carrying Value				
At 31 December 2019	14,095	1,829	69	15,993
At 31 December 2018	–	–	–	–

The Group's right-of-use assets comprise of leasehold interests in a land in the PRC and held under medium-term lease.

Based on the valuation report from an independent professional valuer, as at 31 December 2019, the FVLSD of leasehold land of RMB18,955,000 which was higher than its carrying amount of RMB14,095,000. Thus, no impairment loss is provided for leasehold land as at 31 December 2019.

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

	RMB'000
At 1 January 2018	14,777
Amortisation for the year	(341)
At 31 December 2018	14,436
Adjustment on adoption of HKFRS 16 (note 2(a))	(14,436)
At 1 January 2019 (restated)	–

Upon adoption of HKFRS 16, the current and non-current portion of payments for leasehold land held for own use under operating leases of RMB230,000 and RMB14,206,000 are classified as right-of-use assets.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 **RMB'000**	2018 RMB'000
Current:		
— Unlisted investment funds in the PRC	**4,115**	–

The unlisted investment funds are held for trading purpose, thus they are classified as current assets in the consolidated statement of financial position.

19. INVENTORIES

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

	2019 **RMB'000**	2018 RMB'000
Raw materials	**3,667**	3,833
Work in progress	**1,288**	1,422
Finished goods	**16,656**	12,377
	21,611	17,632

During year ended 31 December 2019, the Group has written down RMB437,000 (2018: RMB369,000) of its finished goods. The written down has been included in cost of sales.

20. CONTRACT BALANCES

	2019 RMB'000	2018 RMB'000
Contract assets (Note (a))	**3,432**	4,766
Contract liabilities (Note (b))	**3,810**	1,074

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 statement of financial position.

A portion of contract sum is generally required from customer at contract inception or acceptance of sales order. 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 quality assurance deposits ("QADs") until the end of quality assurance period ranging from 6 months to 5 years depends on contract terms.

(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. Contracts assets are transferred to trade receivables when quality assurance period are 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 contains a financing component which provide the customers significant financing benefit due to deferred payments.

The expected timing of recovery or settlement for contract assets as at 31 December 2019 is as follows:

	2019 **RMB'000**	2018 RMB'000
Within one year	**988**	**1,847**
More than one year	**2,444**	**2,919**
	3,432	**4,766**

20. CONTRACT BALANCES (CONTINUED)

(a) Contract assets (continued)

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

	2019 RMB'000	2018 RMB'000
At beginning of the year	**4,766**	5,556
Additions during the year	**1,043**	2,059
Transfer to trade receivables during the year	**(2,531)**	(3,358)
Unwinding QADs with significant financing component brought forward from prior years (Note 8)	**154**	509
At end of the year	**3,432**	4,766

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 on contract assets as the lifetime ECLs for contract assets is immaterial.

(b) Contract liabilities

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

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

	2019 RMB'000	2018 RMB'000
At beginning of the year	**1,074**	5,672
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**(440)**	(5,232)
Increase due to cash received, excluding amounts recognised during the year	**3,176**	634
At end of the year	**3,810**	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.

21. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables (Note (a))	**11,713**	18,549
Other receivables (Note (b))	**9,893**	3,855
Deposits	**1,695**	1,389
Prepayments (Note (c))	**24,277**	25,464
	47,578	49,257
Less: Loss allowances	**(2,661)**	(308)
	44,917	48,949

(a) Trade receivables

	2019 RMB'000	2018 RMB'000
Trade receivables, gross	**11,713**	18,549
Less: Loss allowance	**(2,661)**	(263)
Trade receivables, net	**9,052**	18,286

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.

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**3,720**	7,217
More than 3 months	**7,993**	11,332
	11,713	18,549

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

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:

	2019 **RMB'000**	2018 RMB'000
Current (not past due)	**3,030**	7,279
Less than 1 month past due	**378**	684
1 to 3 months past due	**1,276**	2,033
More than 3 months but less than 6 months past due	**775**	5,742
More than 6 months past due	**3,593**	2,548
	9,052	18,286

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 1 January 2018	117
Loss allowance recognised during the year (Note 10)	146
At 31 December 2018 and 1 January 2019	263
Loss allowance recognised during the year (Note 10)	2,398
At 31 December 2019	2,661

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

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 on trade receivables as at 31 December 2019 and 2018.

As at 31 December 2019

	ECL rate %	Gross carrying amount RMB'000	Lifetime ECLs RMB'000	Net carrying amount RMB'000
Current (not past due)	**0.1**	**3,036**	**6**	**3,030**
Less than 1 month past due	**0.5**	**380**	**2**	**378**
1 to 3 months past due	**4.0**	**1,325**	**49**	**1,276**
More than 3 months but less than 6 months past due	**20.0**	**969**	**194**	**775**
More than 6 months past due	**59.8**	**6,003**	**2,410**	**3,593**
		11,713	**2,661**	**9,052**

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

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Other receivables

(i) As at 31 December 2019, among the other receivables, loan of RMB2,417,000 was due from an independent third party. The loan balance was unsecured, interest-free and repayable in one year. The amount was subsequently paid in full after year ended 31 December 2019.

As at 31 December 2018, among the other receivables, loan of RMB1,760,000 and interest receivable of RMB117,000 was due from an independent third party. The balance is unsecured, interest bearing at 6.5% per annum and repayable in one year. The loan was subsequently paid in full after year ended 31 December 2018 and interest receivable of RMB117,000 was written off during the year ended 31 December 2019.

(ii) As at 31 December 2019, among the other receivables, a debt instrument of RMB5,000,000 and interest receivable of RMB63,000 was due from a financial institution in the PRC. The balance is unsecured, interest bearing at 7.5% per annum and repayable in one year.

(iii) The directors expect that the ECLs on the above loan and interest receivables were immaterial as the above balances were not yet past due at reporting date and did not have significant increase in credit risk.

(c) Prepayments

At 31 December 2019, among the prepayments, approximately RMB22,571,000 (2018: RMB24,367,000) represented prepayments to suppliers for purchase of raw materials.

22. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balance	**49,079**	37,438

	2019 RMB'000	2018 RMB'000
Denominated in HK$	**19,058**	210
Denominated in RMB	**27,984**	37,228
Denominated in United States dollar ("US$")	**2,037**	–
	49,079	37,438

Cash at banks earns interest at interest rates 0.35% during the year ended 31 December 2019 (2018: 0.35%). Cash and cash equivalents denominated in RMB which is not a freely convertible currency.

23. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**3,884**	4,496
Other payables and accruals	**3,572**	3,731
Other tax payables	**3,823**	4,664
	11,279	12,891

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**467**	459
More than 3 months	**3,417**	4,037
	3,884	4,496

24. LEASE LIABILITIES

	2019	
	Minimum lease payments RMB'000	Present value of minimum lease payments RMB'000
Minimum lease payments due		
Within one year	985	901
Between one and two years	940	903
Between two and five years	230	228
	2,155	2,032
Less: Future interest expense	(123)	–
Present value of lease liabilities	2,032	2,032
Less: Amounts due for settlement within 12 months (Shown under current portion)		(901)
Non-current portion		1,131

25. DEFERRED TAX LIABILITIES

Deferred tax liabilities represented the fair value adjustment on buildings in property, plant and equipment and leasehold land included in right-of-use assets (2018: payments for leasehold land held for own use under operating lease) arising from acquisition of a subsidiary in prior years.

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

	RMB'000
At 1 January 2018	5,697
Credit to profit and loss for the year	(239)
At 31 December 2018 and 1 January 2019	5,458
Credit to profit and loss for the year	(239)
At 31 December 2019	5,219

26. 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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,500,000,000	13,493
Issued and fully paid:		
At 1 January 2018, 31 December 2018, 1 January 2019	670,000,000	5,923
Issue of shares upon the placing (note)	134,000,000	1,177
At 31 December 2019	804,000,000	7,100

Note: On 25 June 2019, the Company placed 134,000,000 new shares at HK$0.235 per share under general mandate for a total gross proceeds of HK$31,490,000 (the "Placing"). The net proceeds (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing) will be used to finance the use of proceeds as referred to in the Company's announcement dated 25 June 2019 in relation to completion of the Placing. The proceeds of HK$1,340,000 representing the par value of the shares of the Company, were credited to the Company's share capital and the remaining proceeds of HK$30,150,000 before issuing expenses, were credited to share premium account of the Company.

27. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity.

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

	Share Premium RMB'000	Foreign exchange reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	137,989	(3,440)	–	134,549
Other comprehensive income:				
Exchange difference arising on translating of financial statement of the Company	–	3,036	–	3,036
Total comprehensive income for the year	–	3,036	–	3,036
At 31 December 2018 and 1 January 2019	137,989	(404)	–	137,585
Loss for the year	–	–	(3,844)	(3,844)
Other comprehensive income:				
Exchange difference arising on translating of financial statement of the Company	–	1,699	–	1,699
Total comprehensive expense for the year	–	1,699	(3,844)	(2,145)
Issue of shares upon the Placing (Note 26)	25,837	–	–	25,837
At 31 December 2019	163,826	1,295	(3,844)	161,277

27. 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.

28. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain office premises and warehouse under operating lease arrangements with lease terms of three to four years (2018: one to five). 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
Within one year	1,279
Within two to five years	2,115
	3,394

29. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2019 RMB'000	2018 RMB'000
ASSET			
Non-current asset			
Investment in a subsidiary		**168,377**	143,508
TOTAL ASSET AND NET ASSET		**168,377**	143,508
EQUITY			
Equity attributable to owners of the Company			
Share capital	*26*	**7,100**	5,923
Reserves	*27*	**161,277**	137,585
TOTAL EQUITY		**168,377**	143,508

30. INTERESTS IN SUBSIDIARIES

The particulars of the Company's subsidiaries as at 31 December 2019 and 2018 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 Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid ordinary share capital or registered capital	Principal activities and principal place of business
Smart Raise Holding Limited	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

31. 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:

	2019 RMB'000	2018 RMB'000
Fees	**424**	329
Salaries, allowance and benefits in kind	**996**	865
Pension scheme contributions	**120**	113
	1,540	1,307

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB$138,000 and RMB$138,000, respectively, in respect of lease arrangements for an office premise and a warehouse.

Reconciliation of liabilities arising from financing activities is as follows:

	Lease liabilities RMB'000
At 1 January 2019 (restated)	**2,990**
Changes from financing cash flows:	
Payment of lease liabilities	**(1,226)**
Total changes from cash flows	**1,764**
Non-cash changes:	
Addition of lease liabilities	**138**
Interest expense — lease liabilities	**130**
Total non-cash changes	**268**
At 31 December 2019	**2,032**

33. 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.

(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:

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at fair value through profit or loss	**4,115**	–
Financial assets at amortised cost:		
Contract assets	**3,432**	4,766
Trade and other receivables	**43,211**	23,485
Cash and cash equivalents	**49,079**	37,438
	95,722	65,689
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**11,279**	12,891
Lease liabilities	**2,032**	–
	13,311	12,891

(b) Fair value

Financial instruments not measured at fair value

The fair values of the Group's financial assets and liabilities measured at amortised cost as at 31 December 2019 and 2018 were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Fair value (continued)

Financial instruments measured at fair value

The fair value measurements of financial instruments of the Group that are measured at fair value in the consolidated statement of financial position are disclosed by level of the following fair value measurement hierarchy:

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group's financial assets at FVTPL is included in level 3.

The Group's unlisted investment funds are measured at fair value at the end of the reporting period. Based on the relevant agreements, the Group can require the relevant investment fund managers to redeem the units at net asset value by giving a written redemption notice. The fair values of the unlisted investment funds are provided by the relevant investment fund managers. The Group has determined that the reported net asset values represent fair values of these unlisted investment funds. The net asset values of investment funds would be checked by investment fund manager on daily basis. As at reporting date, the fair value of investment funds represented their net asset values as at 31 December 2019.

(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.

(d) Interest rate risk

The Group's exposure to interest rate risk relates principally to its bank deposits. 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 22 above. The Group currently does not have an interest rate hedging policy.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Interest rate risk (continued)

The following table illustrates the sensitivity of the Group's (loss)/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):

	2019 RMB'000	2018 RMB'000
Increase/(decrease) in (loss)/profit for the year and retained earnings		
Increase/(decrease) in basis points("bp")		
+100 bp	**210**	276
- 100 bp	**(210)**	(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.

(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. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of reporting period, the Group has a certain concentration of credit risk as 42% (2018: 22%) of the total trade receivables was due from the Group's largest customer.

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 20(a) and 21(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.

33. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 table below analyses the Group's financial liabilities based on the remaining contractual maturity date.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000
At 31 December 2019					
Trade and other payables	11,279	11,279	11,279	–	–
Lease liabilities	2,032	2,155	985	940	230
	13,311	13,434	12,264	940	230
At 31 December 2018					
Trade and other payables	12,891	12,891	12,891	–	–
	12,891	12,891	12,891	–	–

34. 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.

35. EVENTS AFTER THE REPORTING DATE

On 21 October 2019, the Group entered into a sales and purchase agreement with Polyqueue Limited (the "Target Company") in relation to the acquisition of 100% equity interests of the Target Company (the "Acquisition"). The Acquisition was completed on 15 January 2020 ("the Acquisition Date"). Upon completion, the Target Company became a wholly-owned subsidiary of the Company and its financial results after the Acquisition Date will be consolidated into the Group's consolidated financial statements.

The Target Company and its subsidiaries (collectively "Target Group") is principally engaged in Data Centre Business in Shanghai, the PRC. As the financial performance of the Group is deteriorating due to intense competition in office furniture industry and US-China trade war, in order to achieve sustainable growth, the Group seeks the opportunity to expand its business presence into the data centre industry in the PRC in the view that demand for data centre business would be surged due to application of 5G technology in the future.

At Acquisition Date, the Acquisition was satisfied by a total consideration of HK$37,200,000 (the "Consideration") in following manner:

(i) A sum of HK$24,800,000 was satisfied by allotting and issuing an aggregate number of 103,333,333 consideration shares of the Company ("Consideration Shares") to vendors, credited as fully paid, at the issue price of HK$0.24 per Consideration Shares;

(ii) the balance of HK$12,400,000 was paid by the Company to Vendors by issue of convertible bonds ("Convertible Bonds") which are convertible to consideration shares (the "Consideration Shares") at initial conversion price of HK$0.24 for each Conversion Shares.

Up to the date when the Group's consolidated financial statements are authorised for issue, the preparation of consolidated management account of the Target Group as at Acquisition Date was not yet completed and valuation of the Acquisition were still in process. Accordingly, the fair value of the Consideration, the fair value of the acquired assets and liabilities and the provisional goodwill arising on the Acquisition cannot be determined.

The transaction costs of the Acquisition incurred by the Group including expenses charged by professional parties amounted to HK$1,781,000 which is equivalent to RMB1,570,000 are recognised as an expense in profit or loss during the year ended 31 December 2019.

36. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2019 were approved and authorised for issue by the board of directors on 25 March 2020.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	86,862	99,563	96,959	74,866	**48,610**
Profit/(loss) for the year attributable to the owners of the Company	4,267	259	9,573	4,979	**(16,471)**
Total comprehensive income/expense for the year attributable to the owners of the Company	4,155	(7,809)	8,740	5,021	**(16,079)**

Assets and Liabilities	As at 31 December				
	2015	2016	2017	2018	**2019**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	167,671	161,908	182,492	178,325	**190,717**
Total liabilities	(148,669)	(81,206)	(29,840)	(20,814)	**(22,340)**
Net assets	19,002	80,702	152,652	157,511	**168,377**

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

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