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

2016
Annual Report

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of Zhi Sheng Group Holdings Limited (the "Company") collectively and individually accept full responsibilities, 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, 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

HEADQUARTER 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

Level 12, China Minmetals Tower
79 Chatham Road South
Tsim Sha Tsui, Kowloon
Hong Kong

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Ma Gary Ming Fai *(Chairman)*

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

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

Convoy Capital Hong Kong Limited
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88 Connaught Road Central
Central
Hong Kong

LEGAL ADVISER

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

CORPORATE INFORMATION

AUDITOR

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

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY'S WEBSITE ADDRESS

www.qtbgjj.com

STOCK CODE

8370

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "Board") of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2016.

We believe that up to the date of this report, there was no significant change in the market as disclosed in the section headed "Industry Overview" in the prospectus of the Company dated 30 December 2016 (the "Prospectus"). Leveraging on years of experience and competitive strengths of the Group (our competitive strengths include (i) quality of its products which are recognised by the government of the People's Republic of China ("PRC") and international certification organisations; (ii) its provision of custom-made office furniture to suit the needs of our customers; (iii) our provision of after-sales customer service to ensure customers are satisfied with the quality of our products; (iv) our extensive experience and knowledge in dealing with PRC governmental departments, major financial institutions and state-owned entities; and (v) experienced management team), the management team of the Group reinforced the Group's presence in market in Southwest China, effectively expand to markets outside Southwest China, and maintained a rapid growth in terms of overall sales.

The Group generated a revenue of approximately RMB99.6 million in 2016 as compared to RMB86.9 million in 2015, representing an increase of approximately 14.6% over the same period in 2015. The Group recorded a profit of approximately RMB0.3 million as compared to RMB4.3 million in 2015, representing a decrease of approximately 93.0% over the same period in 2015.

Looking forward, the Group will make steady progress in accordance with the plans formulated before its listing and its actual operational conditions, so as to facilitate effective implementation of the business objectives of the Company and bring benefits from it.

The Company successfully listed on GEM on 20 January 2017. The net proceeds raised from listing will help the Group to implement its business strategies, which include (i) observing market trends and adjusting our strategies to adapt accordingly; (ii) renovating and refurbishing our exhibition hall; (iii) expanding our market presence in the PRC; and (iv) acquiring new machinery and equipment. The Group believes that successful implementation of the above business strategies will help the Group to enhance its competitiveness in the office furniture market and retain more customers. Also, listing may enhance our reputation and brand as a reliable supplier of quality office furniture to government, corporate and institutional customers in the PRC.

CHAIRMAN'S STATEMENT

In terms of sales strategy, the Group will secure its market share in five Southwest provinces through 四川青田家具實業有限公司 (Sichuan Greenland Furniture Co., Limited) ("Sichuan Greenland"), an indirect wholly-owned subsidiary of the Company, and strengthen the development in developed provinces and municipalities such as Jiangsu, Beijing and Guangdong and northwestern regions of the PRC. Currently, we have discussed our cooperation intention with potential agencies in those areas, with a view to extend our geographical coverage and reach new customers in those districts. Such areas are believed to be new sales growth drivers, which provide strong support for revenue growth target of the Company in the coming two years.

With regards to our branch office in Chongqing ("Chongqing Branch Office") of Sichuan Greenland, the Group renovated its exhibition hall, which would help to raise the attractiveness of the Group's products and enhance its brand image. The advertising fees and promotion fees for 2017 is expected to be higher than that of 2016. The Group believes that promotional activities can bring sales growth.

On the other hand, in accordance with established targets, the Group will adopt effective measures to exercise strict control over the growth of manpower, sales and distribution and administrative expenses and ensure successful achievement of profit target set by the Group.

APPRECIATION

In the current rapid changing business environment, the great challenge post to the Board and management team is to be adaptive to the environment so as to seize every good investment opportunity to minimize risk and maximise return to shareholders in general. I am optimistic toward the challenging year of 2017 ahead of us. On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, business partners and shareholders for their constant support and trust, and express my heartfelt appreciation to the management team and all staffs for their hard work and dedication to the development of the Group.

Yours faithfully

Ma Gary Ming Fai
Chairman

Hong Kong, 24 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the revenue was approximately RMB99.6 million, representing an increase of approximately 14.6% as compared to the year ended 31 December 2015. The revenue of Sichuan Greenland was approximately RMB89.1 million, representing an increase of approximately 13.9% as compared to the year ended 31 December 2015. The revenue of Chongqing Branch Office was approximately RMB10.5 million, representing an increase of approximately 20.7% as compared to the year ended 31 December 2015.

Such increases were primarily due to (i) new orders in the amount of approximately RMB13.0 million in aggregate in 2016 placed through direct sales by three new customers, which were private entities; and (ii) an increase in orders in the amount of approximately RMB9.6 million from the Group's largest customer in 2016 as compared to 2015.

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. For the year ended 31 December 2016, the Group's cost of sales amounted to approximately RMB72.1 million, representing an increase of approximately 15.4% from approximately RMB62.5 million for the year ended 31 December 2015. Such increase was mainly due to overall growth in revenue.

Gross profit

Gross profit increased from approximately RMB24.4 million for the year ended 31 December 2015 to approximately RMB27.5 million. Gross profit margin decreased slightly from approximately 28.1% for the year ended 31 December 2015 to approximately 27.6% for the year ended 31 December 2016.

Other income

For the year ended 31 December 2016, the Group's other income amounted to approximately RMB0.4 million, representing an increase of approximately 555.7% from RMB61.0 thousand for the year ended 31 December 2015. Such increase was mainly attributable to (i) the government grants of approximately RMB0.2 million received by Sichuan Greenland and (ii) the income from trade payables to a supplier of Chongqing Branch Office of approximately RMB0.2 million written off as the supplier had ceased its operation.

Administrative and other expenses

For the year ended 31 December 2016, the Group's administrative and other expenses amounted to approximately RMB18.5 million, representing an increase of approximately 65.2% from RMB11.2 million for the year ended 31 December 2015. Such increase was mainly attributable to the recognition of listing expense of approximately RMB8.1 million in 2016.

Selling and distribution expenses

For the year ended 31 December 2016, the Group 's selling and distribution expenses amounted to approximately RMB4.4 million, representing a decrease of approximately 6.4% from approximately RMB4.7 million for the year ended 31 December 2015. Such decrease was mainly attributable to the decrease in advertising fees.

Income tax expense

For the year ended 31 December 2016, the Group 's income tax expense amounted to approximately RMB2.9 million, representing an increase of approximately 20.8% from approximately RMB2.4 million for the year ended 31 December 2015. Such increase was mainly attributable to an increase in taxable profit of the Group generated in 2016.

Profit for the year

For the year ended 31 December 2016, the Group's profit amounted to approximately RMB0.3 million, representing a decrease of approximately 93.0% from RMB4.3 million for the year ended 31 December 2015. Such decrease was mainly attributable to the recognition of listing expenses of approximately RMB8.1 million in 2016.

Trade and other receivables

Trade and other receivables increased from approximately RMB39.7 million as at 31 December 2015 to approximately RMB46.7 million as at 31 December 2016. Such increase was mainly attributable to the increase in prepayments of listing expenses and for purchase of raw materials and finished goods.

Trade and other payables

Trade and other payables decreased from approximately RMB42.8 million as at 31 December 2015 to approximately RMB30.5 million as at 31 December 2016. Such decrease was mainly attributable to an increase in accrued listing expenses and a decrease in receipt in advance of Sichuan Greenland due to delivery of orders in 2016.

Comparison of Business Objectives with Actual Business Progress and Use of Proceeds from the Placing of Shares

The following sets out a comparison and analysis of the business objectives as stated in the Prospectus dated 30 December 2016 (the "Prospectus") with the Group's actual business progress up to 31 December 2016 (the "Review Period"):

Business Objectives	Actual Business Progress
Renovation and refurbishment of the exhibition hall to enhance customer experience	Commencement of renovation of the exhibition hall at our Chengdu headquarters
Purchase machinery and equipment for the production facilities and strengthen the production capability	Identification of target machinery and equipment

The Company successfully listed on GEM on 20 January 2017 and 268,000,000 ordinary shares were issued at HK$0.31 per share on 19 January 2017 by way of placing (the "Placing"). Net proceeds from the placing amounted to approximately HK$59.7 million (after deducting the underwriting fees and other related expenses).

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

	Adjusted use of proceeds in the same manner and proportion as stated in Prospectus HK$ million	Actual use of proceeds during the Review Period HK$ million
Renovation of the exhibition hall in Sichuan Greenland	5.0	1.5 (Note)
Acquisition of machinery and equipment	10.9	0
Repayment of existing short-term bank borrowings	42.8	0
Working capital and other general corporate purposes	1.0	0
	59.7	1.5

Note: The Company utilised its internal resources for the renovation of exhibition hall in Sichuan Greenland before obtaining the proceeds.

As at the date the this report, the unutilised proceeds were placed on interest-bearing deposits with licensed banks in Hong Kong and the PRC.

The Directors regularly evaluates the Group's business objective and may change or modify plans against the changing market condition to ascertain the business growth of the Group. During the Review Period, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

In 2016, the Group's principal sources of funds were cash generated from operations, bank borrowing and/or advance from directors or shareholders. The Group recorded net current assets of approximately RMB17.6 million as at 31 December 2016, compared to net current liabilities of approximately RMB45.8 million as at 31 December 2015, which was mainly due to the decrease in amounts due to shareholders after capitalisation of shareholders loans of approximately RMB69.5 million in December 2016. As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB27.6 million and bank borrowing repayable within one year of RMB30,000,000 with average effective interest rate of 5.66% in 2016. Its financial position has been further enhanced by the Placing proceeds obtained in January 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

For the year ended 31 December 2016, the capital structure of the Group consisted of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. Borrowing from bank was denominated in RMB.

FOREIGN EXCHANGE EXPOSURE RISKS

As the Group's revenue and expenses are mainly denominated in RMB and most of its assets and liabilities are denominated in RMB, which is its functional currency, the currency risk resulting from its daily operations is considered not significant. The Group currently does not have a foreign currency hedging policy.

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 longer term.

GEARING RATIO

The gearing ratio calculated as total debts divided by total equity was 0.8 (2015: 6.9). Total debts represents all liabilities excluding trade payables, tax payable, deferred tax liabilities and provision (if any). Such improvement was mainly attributable to (i) the increase in the Company's reserves as a result of listing, reorganisation and issuance of shares; and (ii) repayment of payables.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had no significant capital commitments.

PLEDGE OF ASSETS

As of 31 December 2016, the land use rights and property of the Group's production facilities in Chengdu City were pledged as security for a bank borrowing in the amount of RMB30.0 million.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

The Group was a defendant in a lawsuit in relation to a contract dispute regarding a sale agreement entered into between the plaintiff, which was our customer, and the Group (the "Agreement"). On 20 May 2014, the plaintiff filed a lawsuit with the People's Court of Qingyang District, Chengdu City, Sichuan Province (成都市青羊區人民法院) ("Qingyang District Court") on the ground that the Group had provided substandard products and delayed the delivery and assembling of the product and that resulted in a breach of the Agreement. The plaintiff requested the Group to (i) continue to perform the Agreement, replace products not matching the specifications in the Agreement and deliver undelivered products under the Agreement; (ii) pay an amount of RMB800,000 to compensate the plaintiff in respect of economic loss suffered; (iii) pay damages in the amount of RMB5,000 per day for breach of contract; and (iv) pay damages in the amount of RMB203,696 for intentionally delivering sub-standard products. The Group filed a counterclaim with Qingyang District Court. On 6 August 2015, Qingyang District Court ruled in favour of the plaintiff, pursuant to the judgment of Qingyang District Court the Group was required to deliver and replace products to the plaintiff in consideration of payment by the plaintiff in the amount of RMB140,000 (the "Judgments of First Instance"). The Group disagreed and subsequently filed a notice of appeal on 21 January 2016 to the Intermediate People's Court of Chengdu City, Sichuan Province (成都市中級人民法院) against the Judgments of First Instance. The plaintiff also filed an appeal on the Judgments of First Instance and requested the Group to (i) pay an amount of RMB1,400,000 for delayed delivery and installation as liquidated damages; (ii) pay damages in the amount of RMB82,000 for intentionally delivering sub-standard products as liquidated damages; and (iii) bear litigation costs. On 19 December 2016, Sichuan Province Intermediate People 's Court made civil judgments ("Judgments of Second Instance"): (i) the original sentence of Qingyang District Court on the delivery and replacement of furniture was upheld; (ii) the operating expenses paid by the plaintiff to the Group was changed from RMB140,000 to RMB114,000; (iii) the Group shall pay the plaintiff an amount of RMB140,000 as liquidated damages for delayed delivery and installation of furniture and an amount of RMB5,000 as liquidated damages for sub-standard products. On 5 January 2017, the Group submitted a retrial request on the Judgments of Second Instance to Sichuan Higher People's Court (四川省高級人民法院) ("Sichuan Provincial High Court"). Up to the date of this report, Sichuan Provincial High Court has not yet made a decision on whether to accept the retrial request.

Save as disclosed above, the Group had no significant contingent liabilities as at the date of this report.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group engaged a total of 242 employees (2015: 243) including the Directors. For the year ended 31 December 2016, total staff costs amounted to approximately RMB9.4 million (2015: approximately RMB10.2 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. Detailed policies are set out in the section headed "Environmental, Social and Governance Report" of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

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 only 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.

DISCLOSURE REQUIRED UNDER RULE 18.35 OF THE GEM LISTING RULES

The valuation amount of properties and land of the Group as at 31 October 2016, according to the valuation report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited as included in the Prospectus was RMB64,460,000.

Had all the property and land interests been interests been stated at such valuations, the additional annual depreciation would be nil as there would be revaluation deficit of the property and the additional annual amortisation would be approximately RMB13,000.

EVENTS AFTER THE REPORTING PERIOD

The Company successfully listed on GEM on 20 January 2017 and 268,000,000 ordinary shares were issued at HK$0.31 per share on 19 January 2017 by way of Placing. Net proceeds from the Placing amounted to approximately HK$59.7 million (after deducting the underwriting fees and other related expenses).

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2016, the Group did not have any significant investment, material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of listing of the Company as set out in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

CORPORATE GOVERNANCE REPORT

The Group is committed to ensuring high standards of corporate governance and business practices. The Company'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 Company has complied with the applicable code provisions (the "Code Provisions") of the CG Code.

BOARD OF DIRECTORS

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

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

The Board is responsible for making decisions on all major aspects of the Company'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 (in particular those may involve conflict of interests), major capital expenditure, appointment of Directors and other significant financial and operational matters.

Board Composition

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

Executive Directors

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

Non-executive Director

Mr. Ma Gary Ming Fai *(Chairman)* (appointed on 4 March 2016)

Independent Non-executive Directors

Mr. Chan Wing Kit (appointed on 17 December 2016)
Mr. Kwok Sui Hung (appointed on 17 December 2016)
Ms. Cao Shao Mu (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 37 to 39 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 Company is governed by the Board which has the responsibility for leadership and monitoring of the Company. 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 shareholders' 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 Company became listed on 20 January 2017, the Board Committees did not convene any meeting during the year ended 31 December 2016.

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 the 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 articles of association (the "Articles").

During the Period, the Company held one Board meeting, one audit committee (the "Audit Committee") meeting, one remuneration committee (the "Remuneration Committee") meeting and one nomination committee (the "Nomination Committee") meeting. All minutes of the Board meetings and meetings of Board committees were 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
Executive Directors:				
Mr. Yi Cong	1/1	–	–	–
Mr. Liang Xing Jun	1/1	–	–	–
Non-executive Director:				
Mr. Ma Gary Ming Fai	1/1	–	–	–
Independent Non-executive Directors:				
Mr. Chan Wing Kit	1/1	1/1	1/1	1/1
Mr. Kwok Sui Hung	1/1	1/1	1/1	1/1
Ms. Cao Shao Mu	1/1	1/1	1/1	1/1

CORPORATE GOVERNANCE REPORT

The company secretary of the Company ("Company Secretary") attended all the scheduled Board meetings to report 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 should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

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 Company's 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.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or Audit Committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions.

Appointment and Re-election of Directors

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

The non-executive Directors should be appointed for a specific term and subject to re-election. Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company. The appointment letter of each of the non-executive Director and independent non-executive Directors is for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other. The aforesaid appointment letters are subject to termination provisions therein and the retirement and re-election provisions in the Articles. Details of the appointment letters are summarised in the Report of the Board of Directors on page 30 of this report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

To assist Directors' continuing professional development, the Company 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 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 of the Company.

Independent Non-executive Directors

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

Chairman and Chief Executive Officer

Mr. Ma Gary Ming Fai was appointed as the Chairman of the Board of the Company on 4 March 2016. Mr. Yi Cong was appointed as the Chief Executive Officer and an executive Director of the Company on 19 May 2016.

The Board believes that this is the best interest to the Group to keep Mr. Ma Gary Ming Fai as the Chairman of the Board and Mr. Yi Cong as the Chief Executive Officer and an executive Director.

The Chairman of the Board provides leadership to the Board and 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. These functions and responsibilities are current being shared by the management team.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEE

Audit Committee

The Company established the Audit Committee on 19 December 2016 with written terms of reference. 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.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung meanwhile 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 Company's internal control and risk management system, overseeing the balance, transparency and integrity of the Company'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 Company'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 2016.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year.

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 13 in this report.

Remuneration Committee

The Company established the Remuneration Committee on 19 December 2016 which comprised three independent non-executive Directors, namely Mr. Chan Wing Kit, Mr. Kwok Sui Hung and Ms. Cao Shao Mu. 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.

The Remuneration Committee determines Directors' remuneration by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, performance and the results of the Group in determining the exact level of remuneration for each Director.

Details of the number of Remuneration Committee meeting held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 13 in this report.

Senior Management's remuneration

Senior Management's remuneration payment of the Group for the year ended 31 December 2016 falls within the following bands:

RMB	Number of individuals
Nil to RMB1,000,000	4

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 Company established the Nomination Committee on 19 December 2016 which comprised three independent non-executive Directors, namely Mr. Chan Wing Kit, Mr. Kwok Sui Hung and Ms. Cao Shao Mu. Mr. Chan Wing Kit is the Chairman of the Nomination Committee.

The primary function of the Nomination Committee is to make recommendations to the Board regarding appointment of Directors and candidates to fill vacancies on the Board. The full terms of reference setting out details of duties of the Nomination Committee is available on the websites of the Stock Exchange and the Company.

The Board adopted the board diversity policy (the "Policy") in accordance with the requirement as set out in the CG Code. The Nomination Committee regularly monitors and reviews the implementation of the Policy. Details of the Policy are set out in the section headed "Board Diversity Policy" of this report.

The Nomination Committee has reviewed the structure, size and composition of the Board and the Policy as well as discussing matters regarding the retirement and re-election of Directors.

Details of the number of Nomination Committee meeting held and Directors attendance are set out in the section headed "Number of Meetings and Directors' Attendance" on page 13 in this report.

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 2016, 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 Company's ability to continue as a going concern.

The reporting responsibilities of the Company's auditor, BDO Limited, are set out in the Independent Auditor's Report on pages 40 to 44 of this report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2016, the remuneration paid or payable to the Company's auditor was as follows:

Services rendered	HK$'000
Annual audit service for the year ended 31 December 2016	620
Audit and reporting accountant services relating to the Listing of the Company	2,100
Total	2,720

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 Company's policies, practices on corporate governance, training and continuous professional development of the directors and senior management, the Company'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 Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the Listing.

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 Policy of the Company 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. Selection of candidates for the Board will be based on a range of diversity perspectives, including but not limited to gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Nomination Committee will disclose the composition of the Board in Corporate Governance Report every year and supervise the implementation of the Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company 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 Company 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 2016 and up to the date of this report.

COMMUNICATION WITH SHAREHOLDERS

The Company 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 Company will ensure that there are separate resolutions for separate issues proposed at the general meetings.

The Company 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 Company. The Articles are available on the websites of the Stock Exchange and the Company.

CORPORATE GOVERNANCE REPORT

General Meetings with Shareholders

The Company's annual general meeting will be held on 23 June 2017.

SHAREHOLDERS' RIGHTS

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

Pursuant to article 64 of the Articles of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company 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 Company.

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

Pursuant to Articles of the Company, 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 Company 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

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.

During the year ended 31 December 2016, the Company Secretary confirmed that she had taken no less than 15 hours of relevant professional training.

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 2016, 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 2016, the Group has appointed Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") to:

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

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

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by Baker Tilly 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 Baker Tilly 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 Company 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 oversights risk management and internal audit functions.

CORPORATE GOVERNANCE REPORT

Principal Risks

In 2016, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	Sensitivity to government policies; keeping up with new technologies and customers' taste; market competition risk, reputation risk
Operational Risks	Insufficient labour supply; workplace injury; disruption of IT system
Financial Risks	Liquidity risk, credit risk, interest rate risk, foreign exchange risk, inflation risk
Compliance Risks	Risk related to occupation safety and health; risk of non-compliance with ordinances related to employment; change of listing rules and relevant company regulations and ordinances

Our Risk Control Mechanism

The Group adopts a "three lines of defence" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. 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 Company are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will continue to engage external independent professionals to 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.

There is currently no internal audit function within the Group. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Directors will continue to review at least annually the need for an internal audit function.

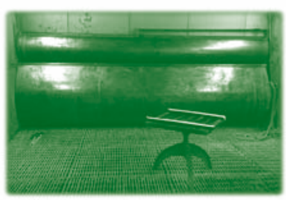
The Group has been regarding the sustainable development of talents, suppliers, environment and other aspects as the cornerstone of its operation. The Group strives to enhance its quality of supply, respect and care for its employees and pay attention to environmental protection. Meanwhile, the Group maintain the competitiveness of the Company in the industry and consolidate its profitability in order to provide investors with reasonable returns.

ENVIRONMENTAL PROTECTION

The Group has formulated a series of management policies, mechanisms and measures for protection of environment and natural resources. Meanwhile, the Group has passed the certification of ISO14001 standard and established a sound environmental management system. The Group also adopts "Green Policy", which encourages employees to reduce consumption of electricity, water and papers, reduce the use of natural resources, reduce wastes, recycle and reuse as well as conserve energy and lower carbon emission.

Contents	Measures	Results
Energy use	To implement "Light-less policy" during lunch hour and use energy-efficient bulbs.	The total electricity consumption of our offices and factory in 2016 amounted to approximately 5,136.09 million kWh.
Waste management	The Group has engaged qualified companies for clearance and handling to reuse wastes. Recycling materials control centers are set up in the factory area to collect statutory hazardous wastes and resourceful wastes.	Waste separation is effectively handled.
Management of water resources	To ensure the provision of safe water consistent with statutory water quality standard and compliance with local regulatory discharge requirements for handling water discharge. Meanwhile, environmental-friendly equipment is installed in the factory to recycle process water.	The total water consumption of our offices and factory in 2016 amounted to approximately 4,655 tons.
Dust management	Central vacuum and purification systems are set up in the factory, constantly providing fresh air and reducing potential risks of fire or explosion as well as dilution of air pollutants.	The amount of dust is effectively reduced.

Energy use- Energy-saving Signs



Management of water resources – water oil spraying machine

Dust management – vacuum tube and vacuum tower

EMPLOYMENT AND LABOR PRACTICES

Performance management, development and training system

The Group provide apprentice training for workers with no manufacturing and production experience. Respective mentors are assigned to every apprentice for providing technical knowledge and guidance to make them capable of taking charge on their own soon. The Group also provides employees with trainings on safety knowledge and environmental knowledge to establish a solid safety and environmental protection awareness. To safeguard employees' health and enhance awareness of disease prevention, we also organize health talks. The Group has provided employees with approximately 40 hours of on-the-job training.

Chinese New Year Dinner

Work-life balance

The Group provide a range of facilities to ensure balanced and healthy lifestyle of its employees. Sports grounds and canteens are offered in the factory. The Group also provide staff who left their hometown with dormitories. In addition, we organize activities for enhancing employees' loyalty to the Company and cohesion among employees.

Diversified communication channels

All employees and management of the Group can conduct horizontal or vertical communications through multi-communication channels, such as emails, forums, bulletin boards and other channels. If general staff has complaints about work, we will arrange face-to-face communication with department heads while complaints can be submitted to relevant parties or departments as well. If the person or the department being complained cannot provide satisfactory solutions, the complaints will be submitted by level to ensure explicit feedbacks.

Working conditions

Safety and hygiene

The Group provide staff with driving safety and fire prevention courses. Meanwhile, the Group also ensure that all employees are familiar with fire emergency procedures and hold fire drills. Under this mechanism and implementation of measures, in 2016, there was neither industrial accident or work-related accident. Due to the nature of our industry, dust and chemical gases are emitted during the production process. To protect the staff's health and safety, the Group also provide them with masks or gas masks for protection during the production and department heads will conduct site investigations from time to time.

Maternity leave and childcare leave

The Group continuously provide fully support to pregnant staff. We offer 98 days of maternity leave to pregnant employees and female employees. In addition, the Company prohibits its pregnant employees from performing heavy duties during pregnancy to ensure safety of both children and mother. Furthermore, male employees enjoy 7 days of childcare leave. The Group will incorporate employee welfare into the human resources and wage management system.

BUSINESS PRACTICES

Supply chain management

To ensure that wood-based raw materials purchased by the Group are sourced legally, we obtained copies of, and inspect, the Production License of Industrial Products (全國工業產品生產許可證) and/or Timber and Bamboo Operation and Processing License (木竹材經營加工許可證) as well as other credentials of each supplier. The Group also regularly conduct reviews that involve an assessment as to whether the suppliers continue to satisfy our requirements and standards in terms of quality of products, efficiency, reliability, renewal of licenses and technical capabilities.

Product management

To improve customers' experience for products, the Group has established an after-sales services team, which is responsible for following up customer enquiries and providing customers with maintenance services. Its after-sales services team responds to maintenance requests within one working day. In cases where products are damaged by its customers' own use instead of its inherent defects, the Group will charge them a certain fee for maintenance services.

Anti-corruption, reporting channels and policies

The Group has formulated a system to prevent commercial bribery and corruption, which requires the employees, during the course of business engagement, not to (whether directly or indirectly) provide, undertake, request or receive any improper benefits, or take any other actions which are in violation of integrity, illegal or dishonest behaviors which are in breach of national provisions. Whistleblowers can report to the administrative center and the administrative center will initiate investigation when the complaints are accepted. In 2016, there was no incident of corruption, bribery, extortion, fraud and money laundering involved by the Group and its staff.

COMMUNITY PARTICIPATION

Community greening

The Group are concerned with our living place. Since the commencement of factory operation, the Group are committed to planting trees and other vegetation in its factory area with proper care and conservation, to improve air quality and enhance the working environment.

Interior landscape in the factory

REPORT OF THE BOARD OF DIRECTORS

The Directors of the Company presented their report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2016.

BUSINESS REVIEW

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

On 20 January 2017, the Company was successfully listed on GEM. The proceeds received from the Placing have strengthened the Group's cash flow and the Group will implement its future plans and business strategies as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

We believe that up to the date of this report, there was no significant change in the market as disclosed in the section headed "Industry Overview" in the Prospectus.

Leveraging on years of experience and competitive strengths of the Group, including (i) quality of its products which are recognised by the PRC government and international certification organisations; (ii) its provision of custom-made office furniture to suit the needs of its customers; (iii) its provision of after-sales customer service to ensure customers are satisfied with the quality of its products; (iv) its extensive experience and knowledge in dealing with PRC governmental departments, major financial institutions and state-owned entities; and (v) its experienced management team, the Group has steadily expanded its existing network and market and recorded a revenue of approximately RMB99.6 million in 2016, representing an increase of approximately 14.6% over 2015.

Meanwhile, the Group has executed strict control on costs and expenses and achieved positive results. The Group recorded a profit of approximately RMB0.3 million in 2016. The decrease in profit in 2016 as compared to 2015 was due to the recognition of listing expenses of approximately RMB8.1 million in 2016.

The above business strategy laid a solid foundation for the achievement of the profit target of the Group.

REPORT OF THE BOARD OF DIRECTORS

Key Performance Indicators

The Group's tender sales were approximately RMB73.5 million, which represented approximately 73.8% of its total revenue for the year ended 31 December 2016. The following table sets out the breakdown of submitted tenders to potential customers for the year ended 31 December 2016:

	2016
Number of tenders submitted	**319**
Value of total tenders submitted	**RMB122.6 million**
Number of tenders won	**198**
Success rate (by number of tenders submitted)	**62.1%**
Success rate (by value of tenders submitted)	**41.9%**

Future Developments and Prospects

Details of the future development of the business of the Group are set out in the section headed "Chairman's Statement" of this report and the section headed "Future Plans and Use of Proceeds" in the Prospectus.

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.

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 of HK$0.01 each of the Company on GEM. Pursuant to the Reorganisation, the Company 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 the GEM of the Stock Exchange with effect from 20 January 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 29 to the consolidated financial statements.

REPORT OF THE BOARD OF DIRECTORS

RESULTS AND DIVIDENDS

The financial performance of the Group for the year ended 31 December 2016 and the financial position of the Group as at that date are set out in the financial statements on pages 45 to 93 of this report.

No interim or final dividend was declared and paid during the year ended 31 December 2016 (2015: Nil). No shareholder has agreed to waive dividends.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three years is set out on page 94 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 2016 are set out in note 15 to the consolidated financial statements.

BANK BORROWING

As at 31 December 2016, the Group had a bank borrowing of RMB30,000,000 (2015: RMB30,000,000). The bank borrowing was secured by the land use right and properties of the Group's production facilities in Chengdu City and repayable within one year.

INTEREST CAPITALISED

The Group has not capitalised any interest during the year ended 31 December 2016.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 25 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the distributable reserves of the Company approximately amounted to RMB80.7 million, which was not recommended to be the payment of a final dividend for the year by the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Since the listing of the shares of the Company was subsequent to the year ended 31 December 2016, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell any of such listed securities for the year ended 31 December 2016.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS

The Directors of the Company during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors

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

Non-executive Director

Mr. Ma Gary Ming Fai *(Chairman)* (appointed on 4 March 2016)

Independent Non-executive Directors

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

Confirmation of Independence

Each independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company 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 37 to 39 of this report.

DIRECTORS' SERVICE CONTRACTS

(a) Executive Directors

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

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

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company. Under the terms of the appointment letter, the appointment shall be for a term of three years commencing from the Listing Date 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 Company 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 emolument of the Directors are recommended by the Remuneration Committee by reference to the benchmarking of the market. The Company also looks into individual Director's competence, duties, responsibilities, 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 of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they 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 OR 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 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 2016.

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 Company were entered into or subsisted during the year ended 31 December 2016.

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 2016.

POTENTIAL COMPETING INTERESTS

As at 31 December 2016, 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 since the Listing Date and up to the date of this report.

COMPLIANCE OF 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 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 the Company was not listed on the Stock Exchange as at 31 December 2016, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO") and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 31 December 2016.

As at the date of this report, 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 V 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 Rule 5.46 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. Ma Gary Ming Fai	Interest in a controlled corporation (Note 1)	245,300,400 (Long position)	36.62%
Mr. Yi Cong	Interest of a spouse (Note 2)	116,580,000 (Long position)	17.40%

Notes:

1. The shares are held by Sun Universal Limited, the equity interest of which is owned as to 100% by Mr. Ma Gary Ming Fai. Accordingly, Mr. Ma Gary Ming Fai is deemed to be interested in all the shares held by Sun Universal Limited for the purpose of Part XV of the SFO.
2. 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 V 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 Rule 5.46 of the GEM Listing Rules relating to the required standard of dealings by directors.

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

As the Company was not listed on the Stock Exchange as at 31 December 2016, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO") and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 31 December 2016.

As at the date of this report, 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 shareholder	Capacity/Nature of interest	Number of shares held/interested	Percentage of shareholdings
Sun Universal Limited	Beneficial owner	245,300,400 (Long position)	36.62%
Ms. Hung Fung King Margaret	Interest of spouse (Note 3)	245,300,400 (Long position)	36.62%
Brilliant Talent Global Limited	Beneficial owner (Note 4)	116,580,000 (Long position)	17.40%
Ms. Zhang Gui Hong	Interest in a controlled corporation (Note 4)	116,580,000 (Long position)	17.40%

Notes:

3. Ms. Hung Fung King Margaret is the spouse of Mr. Ma Gary Ming Fai. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma Gary Ming Fai for the purpose of Part XV of the SFO.
4. 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 the date of this report, the Directors have not been notified by any person who had interests or short positions in the shares, 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.

REPORT OF THE BOARD OF DIRECTORS

SHARE OPTION SCHEME

The Company has conditionally adopted the share option scheme in which certain eligible participants including, among others, the Directors and employees of the Group may be granted options to subscribe for Shares. The Directors believe that the share option scheme will assist in the recruitment and retention of quality executives and employees. A summary of the principal terms of the share option scheme is set out in the section headed ''Appendix V — Statutory and general information — D. Share option scheme'' in the Prospectus.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Convoy Capital Hong Kong Limited, the Company's compliance adviser, 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 Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Convoy Capital Hong Kong Limited on 29 December 2016 (the "Compliance Adviser Agreement")) as at 31 December 2016.

Pursuant to the Compliance Adviser Agreement, Convoy Capital Hong Kong Limited has received and will receive fees for acting as the Company's compliance adviser.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the aggregate amount of turnover attributed to the Group's largest and the five largest customers accounted for 35.5% and 53.0% (2015: 29.7% and 48.0%) of the total revenue of the Group, respectively. For the year ended 31 December 2016, the Group's purchase from the largest and the five largest suppliers accounted for 47.5% and 59.2% (2015: 36.3% and 61.0%) of the total purchases of the Group, respectively. At no time during the year ended 31 December 2016 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 as disclosed above.

CONNECTED/RELATED PARTY TRANSACTIONS

During the year ended 31 December 2016, 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 key management personnel of the Group, including Directors described in note 30 to the Group's consolidated financial statements are continuing connected transactions exempt from the connected transaction requirements under Rule 20.93 of the GEM Listing Rules. Amounts due to directors or shareholders described in notes 22 and 23 to the Group's consolidated financial statements have been repaid before listing of the Company on 20 January 2017.

REPORT OF THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 12 to 22 of this report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as of the date of this report the Company has maintained the public float as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's 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.

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, 20 June 2017 to Friday, 23 June 2017, 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, 19 June 2017.

AUDITOR

The consolidated financial statement for the year ended 31 December 2016 has 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.

By order of the Board of
Zhi Sheng Group Holdings Limited
Ma Gary Ming Fai
Chairman

Hong Kong, 24 March 2017

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yi Cong (易聰), aged 54, 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. 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 Company, which owns 116,580,000 shares of the Company. 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 54, was appointed as a Director on 19 May 2016 and re-designated as the executive Director of the Company on 19 December 2016. He is primarily responsible for the overall production management of the Group. Mr. Liang joined the Group in 1996 and has over 19 years of experience in the furniture industry. Mr. Liang graduated from Chengdu Institute of Radio Engineering (成都電訊工程學院) (now known as the University of Electronic Science and Technology of China (中國電子科技大學)) in July 1984 with a college diploma* (專科) in vacuum electronic technology* (真空電子技術). Mr. Liang Xing Jun's wife is the sister of Mr. Yi Cong's wife.

NON-EXECUTIVE DIRECTOR

Mr. Ma Gary Ming Fai (馬明輝), aged 54, is the chairman of the Board, a non-executive Director and a controlling shareholder of the Company. Mr. Ma was appointed as a Director on 4 March 2016 and was re-designated as non-executive Director of the Company on 19 December 2016. With over a decade of experience in the furniture industry (including holding of senior management positions in a Hong Kong listed company engaged in the manufacturing, trading and retailing of home furniture), Mr. Ma provides leadership, vision and guidance on the strategic development of the business of the Group. Mr. Ma graduated from the University of Calgary, Canada in June 1985 with a Bachelor of Commerce degree. He is a member of the Institute of Chartered Accountants of Ontario in Canada. He was awarded the "Young Industrialist Awards of Hong Kong" by the Federation of Hong Kong Industries in 2008. Mr. Ma is the sole director of Sun Universal Limited, one of the controlling shareholders of the Company, which owns 245,300,400 shares of the Company. Accordingly, Mr. Ma Gary Ming Fai is deemed to be interested in all the shares held by Sun Universal Limited for the purpose of Part XV of the SFO.

BIOGRAPHIES OF BOARD OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Kit (陳永傑), aged 45, 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 14 years of experience in the furniture industry. He acted as executive director and the chief executive officer of Jia Meng Holdings Limited (家夢控股有限公司) (stock code: 8101), a company listed on GEM which is principally engaged in the design, manufacture and sale of mattresses and soft bed products, from September 2013 to January 2016, and has been responsible for the general management and operational decisions of the company.

Mr. Kwok Sui Hung (郭瑞雄), aged 57, 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 on 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 the Company.

Ms. Cao Shao Mu (曹少慕), aged 56, 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.

* *For identification purpose only*

SENIOR MANAGEMENT

Ms. Zou Hua Rong (鄒華蓉), aged 38, is the vice general manager responsible for the sales function of the Group, and is responsible for sales and marketing management and market development. Ms. Zou joined the Group in 2001 as a sales representative and she served Sichuan Greenland's Chongqing Branch Office between 2003 and 2005. She left the company in 2005. In October 2008, Ms. Zou re-joined the Group as a manager and was responsible for the general management of the Chongqing Branch Office until June 2013. Since 2013, Ms. Zou has been the vice general manager responsible for overseeing the sales department and in charge of sales management and product promotion. Ms. Zou graduated from the Xihe Secondary Vocational School of Chengdu* (成都市西河職業中學) (now known as Chengdu School of Automobile Technology* (成都汽車職業技術學校)) in marketing in June 1998.

Mr. Chen Fei (陳飛), aged 39, 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 41, 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. She is responsible for matters such as human resources, company policies and supporting operations.

Ms. Leung Yuk Yi (梁玉宜), aged 47, 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 45 to 93, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 and 18 to the consolidated financial statements and the accounting policies in Note 4(f)(ii) to the consolidated financial statements.

As at 31 December 2016, the Group had trade receivables of approximately RMB16,229,000. No provision on impairment loss has been made over these balances. The impairment assessment of the Group's trade receivables is a key audit matter due to the judgment involved.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the directors' impairment assessment included:

— Enquiring with management of the Group whether there is any impairment indicator for debtors;

— Reviewing subsequent settlements of the trade receivables; and

— Reviewing the repayment history and credit worthiness of the Group's debtors.

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.

INDEPENDENT AUDITOR'S REPORT

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, 24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	*7*	**99,563**	86,862
Cost of sales		**(72,051)**	(62,505)
Gross profit		**27,512**	24,357
Other income	*7*	**388**	61
Selling and distribution expenses		**(4,388)**	(4,687)
Administrative and other expenses		**(18,531)**	(11,232)
Finance costs	*9*	**(1,776)**	(1,880)
Profit before income tax	*8*	**3,205**	6,619
Income tax expense	*12*	**(2,946)**	(2,352)
Profit for the year attributable to the owners of the Company		**259**	4,267
Other comprehensive income for the year:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(8,068)**	(112)
Total comprehensive income for the year attributable to the owners of the Company		**(7,809)**	4,155
Earnings per share			
— Basic and diluted (RMB cents)	*14*	**0.06**	1.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**54,140**	55,751
Payments for leasehold land held for own use under operating leases	*16*	**14,888**	15,229
Total non-current assets		**69,028**	70,980
Current assets			
Payments for leasehold land held for own use under operating leases	*16*	**230**	230
Inventories	*17*	**18,273**	35,686
Trade and other receivables	*18*	**46,745**	39,741
Tax recoverable		**–**	1,053
Cash and cash equivalents	*19*	**27,632**	19,981
Total current assets		**92,880**	96,691
Total assets		**161,908**	167,671
Current liabilities			
Trade and other payables	*20*	**30,545**	42,799
Bank borrowing	*21*	**30,000**	30,000
Amounts due to directors	*22*	**644**	3,900
Amounts due to shareholders	*23*	**13,845**	65,795
Tax payable		**236**	–
Total current liabilities		**75,270**	142,494
Net current assets/(liabilities)		**17,610**	(45,803)
Total assets less current liabilities		**86,638**	25,177
Non-current liabilities			
Deferred tax liabilities	*24*	**5,936**	6,175
Total non-current liabilities		**5,936**	6,175
Total Liabilities		**81,206**	148,669
NET ASSETS		**80,702**	19,002

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	*25*	**–**	62
Reserves	*26*	**80,702**	18,940
TOTAL EQUITY		**80,702**	19,002

On behalf of the directors

Ma Gary Ming Fai
Director

Yi Cong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital* RMB'000	Share premium (Note 26(a)) RMB'000	Other reserve (Note 26(b)) RMB'000	Statutory reserve (Note 26(c)) RMB'000	Foreign exchange reserve (Note 26(d)) RMB'000	Retained earnings (Note26(e)) RMB'000	Total RMB'000
As at 1 January 2015	62	–	–	–	–	14,785	14,847
Profit for the year	–	–	–	–	–	4,267	4,267
Other comprehensive income: Exchange difference arising on translating of foreign operations	–	–	–	–	(112)	–	(112)
Total comprehensive income for the year	–	–	–	–	(112)	4,267	4,155
Transfer to statutory reserve	–	–	–	724	–	(724)	–
As at 31 December 2015 and 1 January 2016	**62**	**–**	**–**	**724**	**(112)**	**18,328**	**19,002**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**259**	**259**
Other comprehensive income: Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**(8,068)**	**–**	**(8,068)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(8,068)**	**259**	**(7,809)**
Allotment and issue of new shares of a group company upon shareholders' loans capitalisation *(Note 25(d))*	**69**	**69,440**	**–**	**–**	**–**	**–**	**69,509**
Arising from the Reorganisation *(Note 25 (a))*	**(131)**	**(69,440)**	**69,571**	**–**	**–**	**–**	**–**
Issue of shares upon the Reorganisation *(Note 25 (c))*	**–**	**80,702**	**(80,702)**	**–**	**–**	**–**	**–**
Transfer to statutory reserve	**–**	**–**	**–**	**1,148**	**–**	**(1,148)**	**–**
As at 31 December 2016	**–**	**80,702**	**(11,131)**	**1,872**	**(8,180)**	**17,439**	**80,702**

* The share capital of the Group as at 31 December 2015 represented the aggregate amount of the share capital of the subsidiaries and was transferred to other reserve upon the Reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Profit before income tax		**3,205**	6,619
Adjustments for:			
Amortisation of payments for leasehold land held for own use under operating leases	*8*	**341**	341
Depreciation of property, plant and equipment	*8*	**3,071**	3,111
Loss on disposal of property, plant and equipment	*8*	**4**	–
Income from trade payable written off		**(168)**	–
Interest income	*7*	**(38)**	(61)
Finance costs	*9*	**1,776**	1,880
Operating profit before working capital changes		**8,191**	11,890
Decrease in inventories		**17,413**	12,189
(Increase)/decrease in trade and other receivables		**(7,004)**	7,544
Decrease in trade and other payables		**(12,086)**	(28,506)
Cash generated from operations		**6,514**	3,117
Income tax paid		**(1,896)**	(4,111)
Interest received		**38**	61
Interest paid		**(1,776)**	(1,880)
Net cash generated from/(used in) operating activities		**2,880**	(2,813)
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash equivalents		**–**	(61,000)
Purchases of property, plant and equipment	*15*	**(1,464)**	(6,118)
Net cash used in investing activities		**(1,464)**	(67,118)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Cash flows from financing activities			
Proceeds from issue of shares		**–**	–
Proceeds from bank and other borrowings		**60,000**	30,000
Repayment of bank and other borrowings		**(60,000)**	(30,000)
(Repayments to)/advances from directors		**(3,256)**	3,300
Advances from shareholders		**17,559**	52,600
Net cash from financing activities		**14,303**	55,900
Net increase/(decrease) in cash and cash equivalents		**15,719**	(14,031)
Cash and cash equivalents at beginning of year		**19,981**	34,124
Effect of foreign exchange rate changes on cash and cash equivalents		**(8,068)**	(112)
Cash and cash equivalents at end of year		**27,632**	19,981
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**27,632**	19,981

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

Zhi Sheng Group Holdings Limited (the "Company") was incorporated in 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, Cayman Islands. Its principal place of business is at Level 12, China Minmetals Tower, 79 Chatham Road South, Tsim Sha Tsui, Kowloon, 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.

In connection with the listing of the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent a reorganisation (the "Reorganisation") and has become the holding company of its subsidiaries now comprising the Group since 19 December 2016. The shares of the Company were listed on the GEM on 20 January 2017. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" to the prospectus of the Company dated 30 December 2016 (the "Prospectus").

The Group is regarded as a continuing entity resulting from the Reorganisation as there is no change in the economic substance of the Group. Accordingly, the consolidated financial statements have been prepared using the merger basis of accounting as if the Reorganisation had been completed at 1 January 2015 and the current group structure had always been in existence.

Accordingly, 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 of the Group for the years ended 31 December 2016 and 2015 have included the financial performance, changes in equity and cash flows of the companies now comprising the Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout those years. The consolidated statement of financial position of the Group as of 31 December 2016 and 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

The consolidated financial statements for the year ended 31 December 2016 were approved and authorised for issue by the board of directors on 24 March 2017.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

Amendments to HKAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on the Group's financial statements as the Group has not previously used revenue-based depreciation methods.

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 HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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

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

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

Amendments to HKFRS 2 — Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

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

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

HKFRS 9 — Financial Instruments (continued)

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

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

Amendments HKFRS 15 — Revenue from Contracts with customers

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

HKFRS 16 — Leases

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

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

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material 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 "HKFRSs") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rule").

(b) Basis of measurement

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

(c) Functional and presentation currency

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Business combination and basis of consolidation (continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries (continued)

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.

(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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(e) Leasing

The Group as lessee

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

(f) Financial instruments

(i) Financial assets

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(ii) Impairment loss on financial assets

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

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

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

(iii) Financial liabilities

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(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 Group are recorded at the proceeds received, net of direct issue costs.

(vi) Derecognition

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

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

(g) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Revenue and other income recognition

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

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

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

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

(j) Income taxes

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Income taxes (continued)

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.

(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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Company and certain subsidiaries are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of each of the relevant periods, and their incomes and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 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.

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

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

- property, plant and equipment;
- payments for leasehold land held for own use under operating leases; and
- Other non-financial assets

An impairment loss is recognised as an expense immediately for the amount by which the asset's recoverable amount is estimated to be less than its carrying amount. Recoverable amount is the higher of fair value reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 infows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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

(n) Provisions and contingent liabilities

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

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

(o) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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)

(p) 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.

(q) 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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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:

(i) Impairment of receivables

The policy for the impairment of receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on the management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

(ii) Depreciation

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

(iii) 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.

(iv) Income tax

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

6. SEGMENT REPORTING

(a) Reportable segments

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

(b) Geographic 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.

	2016 **RMB'000**	2015 RMB'000
Revenue from external customers		
The PRC (domicile)	**99,563**	86,862

The geographical location of revenue allocated is based on the location at which the goods were delivered. The geographical location of non-current assets is based on the physical location of the assets. The Group has majority of its operation and workforce in the PRC. Therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

6. SEGMENT INFORMATION (continued)

(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:

	2016 **RMB'000**	2015 RMB'000
Customer A	**35,401**	25,762

7. REVENUE AND OTHER INCOME

Revenue represented the net invoiced value of goods sold, net of allowances for returns, trade discounts and value added tax. An analysis of the Group's revenue and other income is as follows:

	2016 **RMB'000**	2015 RMB'000
Revenue		
Sale of office furniture products	**99,563**	86,862
Other income		
Income from trade payables written off	**168**	–
Interest income	**38**	61
Government grants	**182**	–
	388	61

8. PROFIT BEFORE INCOME TAX

	2016 **RMB'000**	2015 RMB'000
Auditor's remuneration	**600**	–
Listing expenses	**8,060**	2,604
Loss on disposal of property, plant and equipment	**4**	–
Cost of inventories recognised as expense	**72,051**	54,636
Depreciation of property, plant and equipment	**3,071**	3,111
Amortisation of payments for leasehold land held for own use under operating leases	**341**	341
Operating lease charges on rental premises	**1,424**	1,245
Staff costs (including directors' remuneration) *(Note 10)*	**9,391**	10,182

9. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank and other borrowings	**1,776**	1,880

10. STAFF COSTS

	2016 RMB'000	2015 RMB'000
Staff costs (including directors' remuneration):		
— Salaries, allowances and benefits in kind	**6,836**	7,692
— Retirement benefit scheme contribution	**2,555**	2,490
	9,391	10,182

11. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(i) Directors' remuneration

Directors' remuneration is disclosed as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2016				
Executive directors:				
Mr. Yi Cong	**–**	**480**	**51**	**531**
Mr. Liang Xing Jun	**–**	**60**	**21**	**81**
Non-executive director:	**–**	**–**	**–**	**–**
Mr. Ma Gary Ming Fai	**–**	**–**	**–**	**–**
	–	**540**	**72**	**612**

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

(i) Directors' remuneration (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2015				
Executive directors:				
Mr. Yi Cong	–	480	55	535
Mr. Liang Xing Jun	–	30	11	41
Non-executive director:				
Mr. Ma Gary Ming Fai	–	–	–	–
	–	510	66	576

Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung were appointed as independent non-executive directors of the Company on 17 December 2016. No remuneration was paid or payable to the independent non-executive directors during the year ended 31 December 2016 (2015: nil).

(ii) Five highest paid individuals

The five highest paid individuals consist of 2 directors of the Group for the year ended 31 December 2016 (2015: 1 director). Details of whose remuneration are reflected in the analysis presented above. Details of remuneration of the remaining 3 highest paid individuals for the year ended 31 December 2016 (2015: 4) are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**214**	374
Retirement benefits scheme contributions	**85**	131
	299	505

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

(ii) Five highest paid individuals (continued)

Their emoluments were within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to RMB500,000	**3**	4

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2016 (2015: 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.

(iii) Senior management

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

	2016 Number of individuals	2015 Number of individuals
Nil to RMB500,000	**3**	3

12. INCOME TAX EXPENSE

	2016	2015
	RMB'000	RMB'000
Current tax		
— tax for the year	**3,185**	2,592
Deferred tax		
— current year	**(239)**	(240)
	2,946	2,352

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 profits derived from and earned in Hong Kong during the years ended 31 December 2016 and 2015.

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

The income tax expense for the years ended 31 December 2016 and 2015 can be reconciled to the accounting profit at applicable tax rate as follows:

	2016	2015
	RMB'000	RMB'000
Profit before income tax	**3,205**	6,619
Tax calculated at tax rate of 25%	**801**	1,655
Tax effect of expenses not deductible for tax purposes	**2,168**	697
Tax effect of temporary differences not recognised	**29**	–
Tax effect of tax losses not recognised	**22**	–
Utilisation of tax losses previously not recognised	**(74)**	–
Income tax expense	**2,946**	2,352

13. DIVIDENDS

No dividend has been paid or declared during the years ended 31 December 2016 and 2015 nor has any dividend been declared since the end of the reporting period.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Group is based on the profit for the year ended 31 December 2016 of RMB259,000 (2015: RMB4,267,000), and on the basis of 402,000,000 shares of the Company in issue, which represents the number of shares of the Company immediately after the Reorganisation and capitalisation issue but excluding any shares issued pursuant to the placing as if these shares issued under the Reorganisation and the capitalisation issue had been issued on 1 January 2015.

There were no potential ordinary shares in issue for the years ended 31 December 2016 and 2015. Accordingly, the diluted earnings per share presented are the same as basic earnings per share.

Pursuant to the written resolutions passed on 19 December 2016, the Directors authorised to capitalise a sum of approximately HK$4,019,900 from the amount standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 401,990,000 ordinary shares of the Company (Note 35(b)).

15. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Leasehold improvements RMB'000	Buildings *(Note 21)* RMB'000	Total RMB'000
Cost						
At 1 January 2015	293	2,575	284	192	49,400	52,744
Additions	193	–	55	–	5,870	6,118
At 31 December 2015 and 1 January 2016	486	2,575	339	192	55,270	58,862
Additions	–	3	136	1,325	–	1,464
Disposals	–	–	(13)	–	–	(13)
At 31 December 2016	486	2,578	462	1,517	55,270	60,313
Accumulated depreciation						
At 1 January 2015	–	–	–	–	–	–
Provided for the year	(172)	(417)	(149)	(119)	(2,254)	(3,111)
At 31 December 2015 and 1 January 2016	(172)	(417)	(149)	(119)	(2,254)	(3,111)
Provided for the year	(66)	(413)	(66)	(251)	(2,275)	(3,071)
Disposals	–	–	9	–	–	9
At 31 December 2016	(238)	(830)	(206)	(370)	(4,529)	(6,173)
Net Book Value						
At 31 December 2016	248	1,748	256	1,147	50,741	54,140
At 31 December 2015	314	2,158	190	73	53,016	55,751

As at 31 December 2016, buildings with the carrying amounts of approximately RMB50,741,000 were pledged as securities for the Group's bank borrowing as set out in Note 21 below.

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

	RMB'000
At 1 January 2015	15,800
Amortisation for the year	(341)
At 31 December 2015 and 1 January 2016	15,459
Amortisation for the year	(341)
At 31 December 2016	15,118

At 31 December 2016, the land use rights with carrying amounts of RMB15,118,000 (2015: RMB15,459,000) ("Pledged Asset A") were pledged as securities of bank borrowing as set out in Note 21 below.

17. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**3,975**	4,047
Work in progress	**1,009**	1,935
Finished goods	**13,289**	29,704
	18,273	35,686

18. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**16,229**	19,232
Other receivables	**1,370**	3,987
Prepayments and deposits	**29,146**	16,522
	46,745	39,741

At 31 December 2016, among the other receivables, RMB933,000 (2015: RMB729,000) was due from 羅錦耀 Mr. Luo Jin Yao ("Mr. Luo"), the then owner of 四川青田家具實業有限公司 ("Sichuan Greenland"), an indirect wholly-owned subsidiary of the Company. The balance is interest free, unsecured and repayable on demand.

The Group did not hold any collateral as security or other credit enhancements over the trade receivables. The credit periods on sales of goods for customers are normally within 90 days from invoice date.

18. TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables are trade receivables (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	2016 **RMB'000**	2015 RMB'000
Within 3 months	**6,871**	3,690
More than 3 months	**9,358**	15,542
	16,229	19,232

The ageing of trade receivables which are not impaired are as follows:

	2016 **RMB'000**	2015 RMB'000
Neither past due nor impaired	**12,528**	11,569
Less than 1 month past due	**816**	465
1 to 3 months past due	**269**	3,069
More than 3 months but less than 6 months past due	**609**	1,668
More than 6 months past due	**2,007**	2,461
	16,229	19,232

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 but not impaired related to a number of independent customers that have a good track record with the Group. Based on past credit experience, the management of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**27,632**	19,981

The analysis of cash and bank balances denominated in foreign currencies at the end of the reporting period are shown as follows:

	2016 RMB'000	2015 RMB'000
HK$	**2,081**	1,126
RMB	**25,551**	18,855
	27,632	19,981

Cash at banks earns interest at interest rates 0.35% during the years ended 31 December 2016 and 2015. Part of cash and bank balances of the Group as at 31 December 2016 and 2015 respectively are denominated in RMB which is not a freely convertible currency.

20. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**7,252**	10,568
Other payables and accruals	**15,006**	6,474
Receipts in advance	**8,287**	25,757
	30,545	42,799

Included in trade and other payables are trade payables with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	2016 RMB'000	2015 RMB'000
Within 3 months	**2,122**	4,623
More than 3 months	**5,130**	5,945
	7,252	10,568

21. BANK BORROWING

	2016 **RMB'000**	2015 RMB'000
Bank borrowing repayable within one year, secured and guaranteed	**30,000**	30,000

Notes:

(i) As at 31 December 2016 and 2015, the interest rate of the bank borrowing consist of two components (i) the benchmark interest rate and (ii) 20% of the benchmark interest rate. The average effective interest rates are 5.66% during the year ended 31 December 2016 (2015: 5.87%).

(ii) As at 31 December 2015, the bank borrowing was guaranteed personally by Mr. Luo and 李燕玲 Ms. Li Yan Ling ("Ms. Li"), the then owners of Sichuan Greenland, and a company, which is owned by Mr. Luo and Ms. Li (collectively known as the "Guarantee").

(iii) The bank borrowing was secured by Pledged Asset A (Note 16) and properties of a company owned by Mr. Luo and Ms. Li ("Pledged Asset B").

(iv) In April 2016, the bank issued a statement to confirm the release of the Guarantee and the Pledged Asset B. In addition to the Pledged Asset A, the Group has further entered into a pledge agreement with the bank by which buildings owned by the Group (Note 15) are pledged as securities to the bank borrowing. As at 31 December 2016, Pledged Asset A and buildings owned by the Group with carrying amounts of approximately RMB15,118,000 and RMB50,741,000 were pledged to secure the bank borrowing respectively.

22. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and repayable on demand.

23. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest free and repayable on demand.

As at 31 December 2016, the amounts, which were included in amounts due to shareholders, of approximately RMB11,183,000 (2015: RMB39,203,000) was due to Mr. Ma Gary Ming Fai, a director of the Company.

24. DEFERRED TAX LIABILITIES

Details of the deferred tax liabilities recognised and movements during the current and prior years:

	Fair value adjustment arising from acquisition of a subsidiary RMB'000
At 1 January 2015	6,415
Credit to profit and loss for the year	(240)
At 31 December 2015 and 1 January 2016	6,175
Credit to profit and loss for the year	(239)
At 31 December 2016	5,936

25. SHARE CAPITAL — GROUP AND COMPANY

	Number	RMB'000
Authorised:		
Ordinary shares of HK$0.01 each		
Upon incorporation *(Note (b))*	10,000,000	84
Increase in authorised share capital on 19 December 2016 *(Note (b))*	1,490,000,000	13,409
At 31 December 2016	1,500,000,000	13,493
Issued and fully paid		
Ordinary shares of HK$0.01 each		
Upon incorporation *(Note(b))*	1	–
Issue of shares pursuant to the Reorganisation *(Note (c))*	9,999	–
At 31 December 2016	10,000	–

25. SHARE CAPITAL — GROUP AND COMPANY (continued)

Notes:

(a) The share capital of the Group as at 31 December 2015 represented the aggregate amount of the subsidiaries and was transferred to other reserve upon the Reorganisation.

(b) The Company was incorporated in the Cayman Islands on 4 March 2016 with an authorised share capital of HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each. On the same date, one ordinary share of HK$0.01 was issued to the initial subscriber in nil paid, and was transferred to Sun Universal Limited ("Sun Universal") for nil consideration. Pursuant to the written resolutions passed on 19 December 2016, the authorised share capital of the Company was increased from HK$100,000 to HK$15,000,000 by the creation of an additional 1,490,000,000 ordinary shares.

(c) On 9 December 2016, the Company issued and allotted 6,101, 499, 499 and 2,900 ordinary shares in nil paid form to each of Sun Universal (a company wholly-owned by Mr. Ma Gary Ming Fai), Oasis Heritage Limited ("Oasis") (a company wholly-owned by Mr. Man Chin ("Mr. Man")), Ms. Sum Kin Man ("Ms. Sum") and Brilliant Talent Global Limited ("Brilliant Talent") (a company wholly-owned by Ms. Zhang Gui Hong ("Ms. Zhang")) respectively, such that after such issue and allotment and together with the initial subscriber share transferred to Sun Universal, the number of ordinary shares of the Company was 10,000.

On 19 December 2016, Mr. Ma Gary Ming Fai, Oasis, Ms. Sum and Ms. Zhang (collectively, the "Ultimate Shareholders"), as vendors, Mr. Man as warrantor and the Company, as purchaser entered into a sale and purchase agreement, pursuant to which the Company acquired 61.02%, 4.99%, 4.99% and 29% share of Smart Raise Holdings Limited ("Smart Raise BVI") representing all its issued shares in aggregate, from Mr. Ma Gary Ming Fai, Oasis, Ms. Sum and Ms. Zhang respectively. The consideration was satisfied by the Company crediting as fully paid at par the (i) 6,102 nil paid ordinary shares of the Company held by Sun Universal (including one nil paid subscriber ordinary share) with instruction from Mr. Ma Gary Ming Fai; (ii) 499 nil paid ordinary shares of the Company held by Oasis with instruction from Oasis; (iii) 499 nil paid ordinary shares of the Company held by Ms. Sum with instruction from Ms. Sum; and (iv) 2,900 nil paid ordinary shares of the Company held by Brilliant Talent with instruction from Ms. Zhang.

Upon the completion of the above acquisition on 19 December 2016, (i) Smart Raise BVI became a wholly-owned subsidiary of the Company; and (ii) the issued share capital of the Company was held as to 61.02%, 4.99%, 4.99% and 29% by Sun Universal, Oasis, Ms. Sum and Brilliant Talent respectively.

(d) On 19 December 2016, the Ultimate Shareholders and Smart Raise BVI entered into a loan capitalisation agreement, pursuant to which the Ultimate Shareholders agreed to capitalise part of their respective non-interest bearing shareholders' loans previously granted to Smart Raise BVI in the total amount of approximately HK$77,241,380 (equivalent to approximately RMB69,510,000) into shares of Smart Raise BVI by the issue and allotment to them of a total of 10,000 new ordinary shares of par value US$1.00 each.

26. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2016 and 2015 are presented in the consolidated statements of changes in equity. Movements on the Company's reserves during the years ended 31 December 2016 and 2015 are as follows:

	Share premium RMB'000
Upon incorporation	–
Issue of shares upon the Reorganisation *(Note 25 (c))*	80,702
At 31 December 2016	80,702

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 the 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 are 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 subsidiary, it is required to appropriate 10% of the 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 PRC 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.

27. OPERATING LEASE COMMITMENTS

As lessee

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**1,268**	1,198
Within two to five years	**269**	1,692
More than five years	**–**	–
	1,537	2,890

28. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	**2016** **RMB'000**	2015 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment in a subsidiary		**80,702**	–
Total non-current assets		**80,702**	–
TOTAL ASSETS AND NET ASSETS		**80,702**	–
EQUITY			
Equity attributable to owners of the Company			
Share capital	*25*	**–**	–
Reserves	*26*	**80,702**	–
TOTAL EQUITY		**80,702**	–

29. INTERESTS IN SUBSIDIARIES

The particulars of the Company's subsidiaries as at 31 December 2016 are set out as follows:

Name of entity	Place 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 BVI	The British Virgin Islands, Limited liability company	100	–	20,000 ordinary shares of US$1 each	Investment holding, Hong Kong
Smart Raise (Hong Kong) Limited	Hong Kong, Limited liability company	–	100	HK$20,000 divided into 20,000 ordinary shares	Investment holding, Hong Kong
Sichuan Greenland	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

30. RELATED PARTY TRANSACTION

Save as disclosed in Notes 22 and 23, the Group has the following significant 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:

	2016 RMB'000	2015 RMB'000
Salaries, allowance and benefits in kind	**720**	791
Retirement benefits scheme contributions	**134**	169
	854	960

31. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Commitments for property, plant and equipment contracted for but not provided	–	–

32. 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 may also be categorised as follows:

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables:		
Trade and other receivables	**19,638**	23,219
Cash and cash equivalents	**27,632**	19,981
	47,270	43,200
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**22,258**	17,042
Bank borrowing	**30,000**	30,000
Amounts due to directors	**644**	3,900
Amounts due to shareholders	**13,845**	65,795
	66,747	116,737

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Fair value

The fair values of the Group's financial assets and liabilities as at 31 December 2016 and 2015 were not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

(c) Currency risk

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

(d) Interest rate risk

The Group's exposure to interest rate risk relates principally to its bank deposits and interest-bearing bank borrowing. The Group's policy is to minimise interest rate risk exposure. To achieve this, the Group regularly assesses and monitors its needs for cash with reference to its business plans and day-to-day operations. Interest rates of cash and cash equivalents are disclosed in Note 19 above. The interest bearing bank borrowing bear floating interest rates and are denominated in RMB. The interest rates and terms of repayment of bank borrowing of the Group are disclosed in Note 21 above. The Group currently does not have an interest rate hedging policy.

The following table illustrates the sensitivity of the Group's profit for the year, and other components of equity due to a possible change in interest rates on its floating rate bank deposits and borrowing 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):

	2016 **RMB'000**	2015 RMB'000
Increase/(decrease) in profit for the year and retained earnings		
Increase and decrease in basis points ("bp")		
+100 bp	**433**	373
- 100 bp	**(433)**	(373)

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

32. FINANCIAL RISK MANAGEMENT (continued)

(d) Interest rate risk (continued)

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

Further quantitative disclosures in respect of the Group's exposures to credit risk arising from trade receivables are set out in Note 18.

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

(f) Liquidity risk

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

The following table details the Group's remaining contractual maturities for its financial liabilities as at 31 December 2016 and 2015. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date on when the Group can be required to pay. The maturity dates for other financial liabilities are based on agreed repayment dates.

32. FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

At 31 December 2016

	Within 1 year or on demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	**22,258**	**–**	**–**	**22,258**	**22,258**
Bank borrowing	**30,990**	**–**	**–**	**30,990**	**30,000**
Amounts due to directors	**644**	**–**	**–**	**644**	**644**
Amounts due to shareholders	**13,845**	**–**	**–**	**13,845**	**13,845**
	67,737	**–**	**–**	**67,737**	**66,747**

At 31 December 2015

	Within 1 year or on demand RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Trade and other payables	17,042	–	–	17,042	17,042
Bank borrowing	31,050	–	–	31,050	30,000
Amount due to a director	3,900	–	–	3,900	3,900
Amounts due to shareholders	65,795	–	–	65,795	65,795
	117,787	–	–	117,787	116,737

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the year.

The capital structure of the Group consists of debt, which include bank borrowing disclosed in Note 21 and equity attributable to owners of the Company, comprising share capital and reserves.

The group sets the amount of capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. 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 net debt to equity ratio at the end of the reporting period was as follows:

	2016 **RMB'000**	2015 RMB'000
Bank borrowing	**30,000**	30,000
Less: Cash and cash equivalents	**(27,632)**	(19,981)
Net debt	**2,368**	10,019
Equity attributable to owners of the Company	**80,702**	19,002
Net debt to equity ratio	**3%**	53%

In the opinion of the directors of the Company, the Group's net debt to equity ratio is maintained at an optimal level having considered the projected capital expenditures and the projected strategic investment opportunities.

34. CONTINGENT LIABILITIES

The Group was a defendant in a lawsuit in relation to a contract dispute regarding a sale agreement entered into between the plaintiff, which was its customer, and the Group (the "Agreement"). On 20 May 2014, the plaintiff filed a lawsuit with the People's Court of Qingyang District, Chengdu City, Sichuan Province (成都市青羊區人民法院) ("Qingyang District Court") on the ground that the Group had provided substandard products and delayed the delivery and assembling of the product and that resulted in a breach of the Agreement. The plaintiff requested the Group to (i) continue to perform the Agreement, replace products not matching the specifications in the Agreement and deliver undelivered products under the Agreement; (ii) pay an amount of RMB800,000 to compensate the plaintiff in respect of economic loss suffered; (iii) pay damages in the amount of RMB5,000 per day for breach of contract; and (iv) pay damages in the amount of RMB203,696 for intentionally delivering sub-standard products. The Group filed a counterclaim with Qingyang District Court. On 6 August 2015, Qingyang District Court ruled in favour of the plaintiff, pursuant to the judgment of Qingyang District Court the Group was required to deliver and replace products to the plaintiff in consideration of payment by the plaintiff in the amount of RMB140,000 (the "Judgments of First Instance"). The Group disagreed and subsequently filed a notice of appeal on 21 January 2016 to the Intermediate People's Court of Chengdu City, Sichuan Province (成都市中級人民法院) against the Judgments of First Instance. The plaintiff also filed an appeal on the Judgments of First Instance and requested the Group to (i) pay an amount of RMB1,400,000 for delayed delivery and installation as liquidated damages; (ii) pay damages in the amount of RMB82,000 for intentionally delivering sub-standard products as liquidated damages; and (iii) bear litigation costs. On 19 December 2016, Sichuan Province Intermediate People's Court made civil judgments ("Judgments of Second Instance"): (i) the original sentence of Qingyang District Court on the delivery and replacement of furniture was upheld; (ii) the operating expenses paid by the plaintiff to the Group was changed from RMB140,000 to RMB114,000; (iii) the Group shall pay the plaintiff an amount of RMB140,000 as liquidated damages for delayed delivery and installation of furniture and an amount of RMB5,000 as liquidated damages for sub-standard products. On 5 January 2017, the Group submitted a retrial request on the Judgments of Second Instance to Sichuan Higher People's Court (四川省高級人民法院) (" Sichuan Provincial High Court ") . Up to the date of this report, Sichuan Provincial High Court has not yet made a decision on whether to accept the retrial request.

Save as disclosed above, the Group had no significant contingent liabilities as at the date of this report.

35. EVENTS AFTER REPORTING DATE

The following significant events took place subsequent to 31 December 2016:

(a) The Company's shares were listed on the GEM of the Stock Exchange on 20 January 2017 and 268,000,000 ordinary shares were issued at HK$0.31 per share on 19 January 2017 (the "Placing") in connection with the listing of the Company on the GEM as detailed in the Prospectus and the announcement of the Company dated 19 January 2017, among others, in relation to the allotment results of the Placing. After deducting related listing expenses, the net proceeds of the placing are approximately HK$59,700,000 (equivalent to approximately RMB53,724,000).

(b) Pursuant to the written resolutions passed on 19 December 2016, the directors authorised to capitalise a sum of approximately HK$4,019,900 from the amount standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 401,990,000 ordinary shares of the Company.

FINANCIAL SUMMARY

RESULTS	For the year ended 31 December		
	2014	2015	**2016**
	RMB'000	RMB'000	**RMB'000**
Revenue	N/A	86,862	**99,563**
Profit for the year attributable to the owners of the Company	N/A	4,267	**259**
Total comprehensive income/(loss) for the year attributable to the owners of the Company	N/A	4,155	**(7,809)**

ASSETS AND LIABILITIES	As at 31 December		
	2014	2015	**2016**
	RMB'000	RMB'000	**RMB'000**
Total assets	197,828	167,671	**161,908**
Total liabilities	(182,981)	(148,669)	**(81,206)**
	14,847	19,002	**80,702**

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

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

The financial information for the years ended 31 December 2014 and 2015 were extracted from the Prospectus of the 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 and is presented on the basis as set out in Note 1 to the consolidated financial statements.