CHINA ENVIRONMENTAL TECHNOLOGY AND BIOENERGY HOLDINGS LIMITED
中 科 生 物 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1237)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2018

— Revenue for the Year increased by 37.3% to RMB634.7 million (2017: RMB462.2 million).

— Loss for the Year is RMB184.9 million (2017: RMB40.6 million).

— Loss per Share is RMB0.0599 (2017: RMB0.0134).

— The Board does not recommend the payment of a final dividend in respect of the Year (2017: Nil).

The Board announces the consolidated results of the Group for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Note	**2018** RMB'000	2017 RMB'000
Revenue	3	**634,686**	462,191
Cost of sales		**(566,161)**	(430,018)
Gross profit		**68,525**	32,173
Other revenue	4(a)	**9,480**	15,777
Other net loss	4(b)	**(180,023)**	(14,884)
Selling and distribution expenses		**(22,329)**	(17,600)
Administrative expenses		**(49,194)**	(47,249)
Expected credit loss on financial assets		**(642)**	–
Loss from operations		**(174,183)**	(31,783)
Finance costs	5(a)	**(8,895)**	(6,216)
Share of profits/(losses) of associates		**282**	(204)
Loss before taxation	5	**(182,796)**	(38,203)
Income tax expense	6(a)	**(2,135)**	(2,353)
Loss for the year		**(184,931)**	(40,556)
Loss per share			
Basic and diluted *(RMB)*	7	**0.0599**	(0.0134)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(Expressed in Renminbi)

	2018	2017
	RMB'000	*RMB'000*
Loss for the year	**(184,931)**	(40,556)
Other comprehensive income, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**7,731**	(16,649)
Item that will not be reclassified subsequently to profit or loss:		
Equity investment designated at fair value through other comprehensive income:		
— Changes in fair value	**(687)**	–
Other comprehensive income for the year, net of tax	**7,044**	(16,649)
Total comprehensive income for the year	**(177,887)**	(57,205)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018
(Expressed in Renminbi)

	Note	**2018** **RMB'000**	2017 RMB'000
Non-current assets			
Property, plant and equipment		**462,194**	631,169
Lease prepayments		**44,183**	73,650
Non-current prepayments for acquisitions of property, plant and equipment		**14,329**	34,603
Interests in associates		**24,716**	24,434
Other financial assets		**3,267**	2,495
Deferred tax assets		**831**	5,984
		549,520	772,335
Current assets			
Inventories	*8*	**345,487**	331,118
Current portion of lease prepayments		**1,017**	1,664
Trade and other receivables	*9*	**215,773**	196,604
Pledged deposits		**18,084**	78,261
Cash and cash equivalents		**38,000**	113,501
		618,361	721,148
Current liabilities			
Trade and other payables	*10*	**57,300**	64,153
Contract liabilities	*11*	**23,133**	–
Bank loans		**91,152**	233,187
Current portion of deferred income		**–**	1,163
Current taxation		**26,277**	25,966
		197,862	324,469
Net current assets		**420,499**	396,679
Total assets less current liabilities		**970,019**	1,169,014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*
At 31 December 2018
(Expressed in Renminbi)

	2018	2017
	RMB'000	*RMB'000*
Non-current liabilities		
Debentures	**17,620**	16,790
Non-current portion of deferred income	**–**	16,038
Deferred tax liabilities	**1,851**	5,596
	19,471	38,424
NET ASSETS	**950,548**	1,130,590
EQUITY		
Share capital	**25,544**	25,544
Reserves	**925,004**	1,105,046
TOTAL EQUITY	**950,548**	1,130,590

NOTES:

1 GENERAL INFORMATION

China Environmental Technology and Bioenergy Holdings Limited ("the Company") was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company was listed on the Stock Exchange on 6 July 2012.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as "the Group"). The consolidated financial statements were authorised for issue by the Directors on 29 March 2019.

2 BASIS OF PREPARATION AND PRESENTATION

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2018 but are extracted from those financial statements.

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs"), Interpretations issued by the International Accounting Standards Board ("IASB") and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Listing Rules.

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group and the Company:

Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IFRS 4	Applying IFRS 9, "Financial instruments" with IFRS 4, "Insurance contracts"
Amendments to IAS 40	Transfers of investment property
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IFRS 15	Clarifications to IFRS 15
Annual improvements — 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28
IFRIC 22	Foreign currency transactions and advance consideration

The impact of the adoption of IFRS 9 Financial Instruments (see Note 2 A below) and IFRS 15 Revenue from Contracts with Customers (see Note 2 B below) have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

A IFRS 9 — Financial Instruments

(i) Classification and measurement of financial instruments

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

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

The following tables summarised the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained profits as of 1 January 2018 as follows:

	RMB'000
Retained profits	
Balance as at 31 December 2017 under IAS 39	366,211
Increase in expected credit losses ("ECLs") in trade and other receivables *(note 2 A(ii) below)*	(3,498)
Balance as at 1 January 2018 under IFRS 9	362,713
Fair value reserve	
Balance at 31 December 2017 under IAS 39	–
Reclassify investments from available-for-sale at cost to financial assets at fair value through other comprehensive income *(note 2 A(i) below)*	1,343
Balance as at 1 January 2018 under IFRS 9	1,343

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 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, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

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

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

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

As of 1 January 2018, an unquoted equity investment was reclassified from available-for-sale financial assets at cost to FVOCI. The unquoted equity investment has no quoted price in an active market. The Group intends to hold this unquoted equity investment for long term strategic purposes. In addition, the Group has designated such unquoted equity investment at the date of initial application as measured at FVOCI. As at 1 January 2018, the difference between the previous carrying amount and the fair value of RMB1,343,000, net of tax, has been included in the opening fair value reserve.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Carrying amount as at 1 January 2018 under IAS 39** *RMB'000*	**Carrying amount as at 1 January 2018 under IFRS 9** *RMB'000*
Unlisted equity investment	Available-for-sale (at cost)	FVOCI	2,495	4,075
Amount due from a related company	Loans and receivables	Amortised cost	67	65
Amounts due from associates *(note)*	Loans and receivables	Amortised cost	101	98
Trade and other receivables	Loans and receivables	Amortised cost	128,642	124,278
Pledged deposits	Loans and receivables	Amortised cost	78,261	78,261
Cash and cash equivalents	Loans and receivables	Amortised cost	113,501	113,501

Note: The balance excluded prepayment to associates for raw materials.

(ii) Impairment of financial assets

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

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

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected losses provision for all trade receivables.

Measurement of ECLs

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

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

For other receivables, the ECLs are based on the 12-month ECLs. The 12-month ECLs are the portion of the lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) a breach of contract such as a default or past due event.

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

Presentation of ECLs

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

Impact of the ECL model

(I) Impairment of trade receivables

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets have substantially the same risk as the trade receivables. The loss allowance for trade receivables as at 1 January 2018 was determined as follows:

1 January 2018	**Current**	**Less than 1 month past due**	**1 to 3 months past due**	**More than 3 months but less than 12 months past due**	**More than 12 months past due**	**Total**
Expected credit loss rate *(%)*	0.82%	2.27%	6.12%	12.43%	29.61%	
Gross carrying amount excluding specific debtors *(RMB'000)*	90,005	6,223	1,542	9,587	4,771	112,128
Loss allowance *(RMB'000)*	738	141	94	1,192	1,413	3,578

The increase in loss allowance for trade receivables upon the transition to IFRS 9 as of 1 January 2018 were RMB3,578,000. The loss allowance further increased for RMB1,048,000 for trade receivables during the year ended 31 December 2018.

(II) Impairment of other receivables

Other financial assets at amortised cost of the Group include amount due from a related company, amounts due from associates and other receivables. Applying the ECL model results in the recognition of ECL of RMB791,000 on 1 January 2018 and reversal of ECL for RMB406,000 for the year ended 31 December 2018.

(iii) Transition

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

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt instrument had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

B IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

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

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of products.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS11, IAS 18 and related interpretations.

The following tables summarised the impact of adopting IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018. There was no material impact on the Group's consolidated statement of cash flow for the year ended 31 December 2018:

		Amounts prepared under		
		IFRS 15	**Previous IFRS**	**Increase/ (decrease)**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade and other payables	*10*	57,300	80,433	(23,133)
Contract liabilities	*11*	23,133	–	23,133
Total current liabilities		197,862	197,862	–

C Amendments IFRS 15 — Revenue from Contracts with Customers (Clarifications to IFRS 15)

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

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

D IFRIC 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has insignificant impact on the consolidated financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are manufacturing and sales of outdoor wooden products, retail sales of outdoor wooden products through self-operated retail shops and manufacturing and sales of renewable energy products.

Revenue from contracts with customers within the scope of IFRS 15:

	2018	2017
	RMB'000	*RMB'000*
Sales of outdoor wooden products	**618,872**	436,841
Retail sales of wooden products	**1,254**	5,280
Sales of renewable energy products	**14,560**	20,070
	634,686	462,191

Information about major customers

For the year ended 31 December 2018, revenues from one (2017: one) customer of the Group's sales of outdoor wooden products amounted to RMB66,120,000 (2017: RMB70,325,000), which represent 10% or more of the Group's revenues.

Revenue from contracts with customers

Disaggregation of revenue information

In the following table, revenue is disaggregated by primary geographical markets, major products and timing of revenue recognition.

	2018			
	Manufacturing and sales of wooden products *RMB'000*	**Retail business** *RMB'000*	**Manufacturing and sales of renewable energy products** *RMB'000*	**Total** *RMB'000*
Primary geographical markets				
The PRC (place of domicile)	**130,305**	**1,254**	**14,560**	**146,119**
North America	**260,111**	**–**	**–**	**260,111**
Europe	**30,349**	**–**	**–**	**30,349**
Asia Pacific (exclusive of the PRC)	**10,162**	**–**	**–**	**10,162**
Australasia	**187,945**	**–**	**–**	**187,945**
	618,872	**1,254**	**14,560**	**634,686**
Major products				
Wooden products	**618,872**	**1,254**	**–**	**620,126**
Renewable energy products	**–**	**–**	**14,560**	**14,560**
	618,872	**1,254**	**14,560**	**634,686**
Timing of revenue recognition				
Product transferred at a point in time	**618,872**	**1,254**	**14,560**	**634,686**

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	31 December 2018 *RMB'000*	**1 January 2018** *RMB'000*
Trade receivables *(note 9)*	**121,888**	**108,550**
Contract liabilities *(note 11)*	**(23,133)**	**(10,094)**

(b) Segment reporting

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely Manufacturing and sales of wooden products, Retail business and Manufacturing and sales of renewable energy products. No operating segments have been aggregated to form the above reportable segments.

- Manufacturing and sales of wooden products: manufacturing and sales of outdoor wooden products to both domestic and overseas customers, and trading of timber.

- Retail business: retail sales of outdoor wooden products through self-operated retail shops.

- Manufacturing and sales of renewable energy products: manufacturing and sales of biomass pellet fuel to both domestic and overseas customers.

(i) Segment results

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

Reportable segment revenue represents the revenue derived from the Group's external customers by Manufacturing and sales of wooden products, Retail business and Manufacturing and sales of renewable energy products, respectively.

The measure used for reportable segment profit/(loss) is "profit/(loss) after taxation (excluding the after tax effect of government subsidies)" of Manufacturing and sales of wooden products, Retail business and Manufacturing and sales of renewable energy products, respectively.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

		2018		
	Manufacturing and sales of wooden products *RMB'000*	**Retail business** *RMB'000*	**Manufacturing and sales of renewable energy products** *RMB'000*	**Total** *RMB'000*
Revenue derived from the Group's external customers	**618,872**	**1,254**	**14,560**	**634,686**
Inter-segment revenue	**11,764**	**–**	**2,208**	**13,972**
Reportable segment revenue	**630,636**	**1,254**	**16,768**	**648,658**
Reportable segment (loss)/profit ((loss)/ profit after taxation (excluding the after tax effect of government subsidies))	**(186,107)**	**(1,622)**	**2,512**	**(185,217)**
Depreciation and amortisation	**(34,414)**	**(436)**	**(507)**	**(35,357)**
Changes in fair value of derivative financial instruments — unrealised	**190**	**–**	**–**	**190**
Impairment of property, plant and equipment	**(139,251)**	**–**	**–**	**(139,251)**
Impairment of lease prepayments	**(23,263)**	**–**	**–**	**(23,263)**
Written-off of inventories	**(7,931)**	**–**	**–**	**(7,931)**

	2017			
	Manufacturing and sales of wooden products	Retail business	Manufacturing and sales of renewable energy products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue derived from the Group's external customers	436,841	5,280	20,070	462,191
Inter-segment revenue	17,629	–	3,105	20,734
Reportable segment revenue	454,470	5,280	23,175	482,925
Reportable segment (loss)/profit ((loss)/profit after taxation (excluding the after tax effect of government subsidies))	(44,515)	(1,946)	3,541	(42,920)
Depreciation and amortisation	(23,736)	(1,234)	(507)	(25,477)
Changes in fair value of derivative financial instruments — unrealised	(12,307)	–	–	(12,307)
Impairment of property plant and equipment	(2,323)	–	–	(2,323)
Written-off of inventories	(2,354)	–	–	(2,354)

(ii) Reconciliations of reportable segment revenue and reportable segment loss

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**648,658**	482,925
Elimination of inter-segment revenue	**(13,972)**	(20,734)
Consolidated revenue	**634,686**	462,191
Loss		
Reportable segment loss derived from the Group's external customers	**(185,217)**	(42,920)
Government subsidies (net of tax)	**5,849**	9,589
Unallocated head office and corporate expenses	**(5,563)**	(7,225)
Consolidated loss after taxation	**(184,931)**	(40,556)

(iii) Geographical information

Revenue from external customers

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

	2018	2017
	RMB'000	*RMB'000*
The PRC (place of domicile)	**146,119**	107,332
North America	**260,111**	236,279
Europe	**30,349**	18,303
Asia Pacific (exclusive of the PRC)	**10,162**	16,945
Australasia	**187,945**	83,332
	488,567	354,859
	634,686	462,191

4 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	2018	2017
	RMB'000	*RMB'000*
Interest income on bank deposits	**797**	3,405
Government subsidies	**7,022**	11,418
Dividend income	**461**	354
Rental income	**290**	204
Others	**910**	396
	9,480	15,777

The Group received unconditional government subsidies of RMB5,859,000 (2017: RMB10,255,000) for the year ended 31 December 2018. These government subsidies were granted to Fujian Zhangping Kimura Forestry Products Co, Ltd. ("Zhangping Kimura") and Unicreed Industry & Trade Co., Ltd. There were no unfulfilled conditions or contingencies attaching to these government grants.

The Group recognised government subsidies as deferred income which compensates the Group for the cost of its land use right and the cost of infrastructure development. RMB1,163,000 government subsidies (deferred income) (2017: RMB1,163,000) were recognised as other revenue for the year ended 31 December 2018, which is on a systematic basis over the useful life of the relevant assets.

(b) Other net loss

	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange (loss)/gain	**(5,346)**	8,966
Change in fair value of derivative financial instruments — realised	**(4,036)**	(3,448)
Changes in fair value of derivative financial instruments — unrealised	**190**	(12,307)
Gain on disposal of land use right	**–**	580
Gain on disposal of property, plant and equipment	**1**	105
Impairment of property, plant and equipment	**(139,251)**	(2,323)
Impairment of lease prepayments	**(23,263)**	–
Impairment of trade and other receivables	**–**	(3,493)
Written-off of inventories	**(7,931)**	(2,354)
Others	**(387)**	(610)
	(180,023)	(14,884)

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2018	2017
	RMB'000	*RMB'000*
Interest expense on bank loans and debentures	**8,895**	14,501
Less: Interest expense capitalised into construction in progress*	**–**	(8,285)
	8,895	6,216

* The borrowing costs have been capitalised at a rate of 3.01% per annum for the year ended 31 December 2017. No borrowing costs have been capitalised for the year ended 31 December 2018.

(b) Staff costs

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**33,979**	30,862
Contributions to defined contribution retirement schemes	**1,497**	1,745
	35,476	32,607

Pursuant to the relevant labour rules and regulations in the PRC, the Group's entities in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2018 and 2017. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

(c) Other items

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories[#]	**566,161**	430,018
Depreciation of property, plant and equipment	**33,733**	23,756
Amortisation of lease prepayments	**1,635**	1,732
Operating lease charges for properties	**451**	593
Research and development costs	**22,969**	21,049
Auditors' remuneration	**1,066**	1,089

[#] Cost of inventories includes RMB52,223,000 (2017: RMB37,090,000) for the year ended 31 December 2018 relating to staff costs, depreciation and research and development costs, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018	2017
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**182**	441
Over-provision in respect of prior years	**(210)**	–
Deferred tax		
Origination and reversal of temporary differences	**2,163**	1,912
	2,135	2,353

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

	2018	2017
	RMB'000	*RMB'000*
Loss before taxation	**(182,796)**	(38,203)
National tax on loss before taxation, calculated at the rates applicable in the tax jurisdictions concerned *note (i) & (ii)*	**(42,522)**	(10,290)
Effect of non-taxable income	**(1)**	(3,030)
Effect of income reduction *(note (iv))*	**(419)**	(580)
Effect of deductible temporary differences not recognised	**–**	7,281
Effect of non-deductible expenses	**43,174**	5,069
Effect of research and development expense bonus deduction *(note (iii))*	**(4,307)**	(2,631)
Tax loss not recognised	**6,420**	6,534
Over-provision in respect of prior years	**(210)**	–
Actual tax expense	**2,135**	2,353

Notes:

i. The Group's PRC subsidiaries are subject to PRC corporate income tax at the statutory rate of 25% unless otherwise specified.

Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions respectively.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2018 and 2017.

ii. Zhangping Kimura applied and was approved for the High and New Technology Entities ("HNTE") qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2016, and therefore is entitled to the preferential income tax rate of 15% for a period of three years from 2016 to 2018.

iii. According to the PRC Corporate Income Tax Law and its relevant regulations, qualified research and development expenses are subject to income tax deductions at 175% (2017: 150%) on the amount actually incurred.

iv. Income reduction as stated in Article 33 of the Enterprise Income Tax Law shall refer to the treatment that where an enterprise uses the resources stipulated in the Catalogue for Comprehensive Utilization of Resources Qualified for Enterprise Income Tax Preferential Treatment as its major raw materials to produce products that are not restricted or prohibited by the State and satisfy the relevant State and industrial criteria and only 90% of the income derived shall be calculated in its total income.

v. According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident corporate investors from PRC resident enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008.

vi. In addition to the amount charged to the other comprehensive income, deferred tax of RMB121,000 relating to the change in fair value of the financial assets for the year ended 31 December 2018 has been credited to other comprehensive income.

7. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2018 is based on the loss attributable to equity shareholders of the Company of RMB184,931,000 (2017: RMB40,556,000) and weighted average of 3,088,335,000 shares (2017: 3,030,542,000 shares) in issue during the year ended 31 December 2018, calculated as follows:

	Number of shares	
	2018	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**3,088,335**	3,030,542

There were no potential dilutive ordinary shares during the years ended 31 December 2018 and 2017 and, therefore, diluted loss per share are the same as the basic loss per share.

8. INVENTORIES

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

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**165,793**	174,856
Work in progress	**34,915**	29,298
Finished goods	**144,779**	126,964
	345,487	331,118

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

	2018	2017
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**566,161**	430,018

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade and bills receivables	**117,268**	110,650
Trade receivable from associates	**9,246**	1,478
Less: Loss allowance	**(4,626)**	–
Total trade receivables	**121,888**	112,128
Prepayment for raw materials	**71,134**	63,927
Derivative financial instruments	**2,736**	–
Amount due from a related company	**71**	67
Amounts due from associates	**1,973**	3,968
Amount due from a director	**30**	–
Other receivables	**18,326**	16,514
Less: Loss allowance	**(385)**	–
Total other receivables	**93,885**	84,476
	215,773	196,604

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The ageing analysis of trade receivables based on invoice date and net of loss allowances as of the end of reporting period, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**45,592**	38,776
1 to 2 months	**25,581**	25,738
2 to 3 months	**6,562**	11,560
Over 3 months	**44,153**	36,054
	121,888	112,128

Trade receivables are normally due within 90 days to 180 days from the date of billing.

The below table reconciled the impairment losses of trade and other receivables for the year:

	Trade receivables of specific debtors	Trade receivables excluding specific debtors	Amount due from a related company	Amounts due from associates	Other receivables	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	–	–	–	–	–	–
Impairment losses recognised during the year	3,493	–	–	–	–	3,493
Balance at 31 December 2017 under IAS 39	3,493	–	–	–	–	3,493
Impact of initial application of IFRS 9 *(note 2A(ii))*	–	3,578	2	3	786	4,369
Balance at 1 January 2018 under IFRS 9	3,493	3,578	2	3	786	7,862
Impairment losses recognised during the year	–	1,048	–	(3)	(403)	642
At 31 December 2018	3,493	4,626	2	–	383	8,504

10. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**12,018**	3,769
Receipt in advance	**–**	10,094
Amounts due to associates	**23,276**	22,416
Derivative financial instruments	**2,546**	12,307
Amount due to a director	**12**	12
Amount due to a related company	**283**	283
Other payables and accruals *(note i)*	**19,165**	15,272
	57,300	64,153

Notes:

i. Balance mainly represents salaries, wages, bonus and other accrued benefits, and payables for the purchase of property, plant and equipment.

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

(a) A maturity analysis of the trade payables is as follows:

The maturity analysis of the trade payables balance is as follows:

	2018	2017
	RMB'000	*RMB'000*
Due within 1 month or on demand	**9,669**	3,169
Due after 1 month but within 3 months	**2,349**	600
	12,018	3,769

11. CONTRACT LIABILITIES

	31 December 2018 *RMB'000*	**1 January 2018** *RMB'000*	31 December 2017 *RMB'000*
Contract liabilities	**23,133**	**10,094**	–

The contract liabilities represented the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period. The Group expects the transaction price allocated to the unsatisfied performance obligations will be recognised as revenue when the Group transfers goods to the customer.

The contract liabilities represented receipt in advance from customers for goods that have not yet been transferred to the customers. As at 31 December 2018 and 2017, the contract liabilities mainly included the receipt in advance received from sales of wooden products. The contract liabilities increased by RMB13,039,000 during the year ended 31 December 2018 primarily due to the increase in sales with receipt in advance.

During the year ended 31 December 2018, all brought-forward contract liabilities at the beginning of the financial period were fully recognised as revenue.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

Sales deposits

When the Group receives a deposit before the delivery of goods, this will give rise to contract liabilities at the start of a contract, until the revenue recognised exceeds the amount of the deposit. The amount of the sales deposit, if any, was negotiated on a case by case basis with customers.

	2018 *RMB'000*
At 1 January	**10,094**
Amounts included in contract liabilities that was recognised as revenue during the year *(Note)*	**(10,094)**
Cash received in advance of performance and not recognised as revenue during the year	**23,133**
At 31 December	**23,133**

Note: The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Upon the adoption of IFRS 15, amounts previously included in "Trade and other payables" (note 10) have been reclassified to "Contract liabilities" (note 11).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Segment review

During the Year, the performance of our business segments are as follows:

	Segment revenue derived from external customers		Change	% to total segment revenue derived from external customers		Reportable segment (loss)/profit *(Note 1)*	
	2018	2017		**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	*%*	***%***	*%*	***RMB'000***	*RMB'000*
Manufacturing and sales of wooden products	**618,872**	436,841	41.7%	**97.5%**	94.5%	**(186,107)**	(44,515)
Retail business	**1,254**	5,280	–76.3%	**0.2%**	1.2%	**(1,622)**	(1,946)
Manufacturing and sales of renewable energy products	**14,560**	20,070	–27.5%	**2.3%**	4.3%	**2,512**	3,541
	634,686	462,191		**100.0%**	100.0%	**(185,217)**	(42,920)

The Group's core business segments are comprised of production and sales of wooden products; retail business; and manufacturing and sales of renewable energy products. During the Year, revenue from these three business segments amounted to approximately RMB618.9 million, RMB1.3 million and RMB14.6 million (2017: approximately RMB436.8 million, RMB5.3 million and RMB20.1 million), accounting for 97.5%, 0.2% and 2.3% of the total revenue (2017: 94.5%, 1.2% and 4.3%).

Note 1: Reportable segment (loss)/profit has excluded the after tax effect of government subsidies.

Manufacturing and sales of wooden products remains to be the Group's largest business segment, contributing 97.5% of the Group's revenue. The revenue derived from such business increased by 41.7%. The overall increase in revenue from this segment is mainly attributable to the growing market acceptance of the Group's timber houses and their related parts and structures products in Australasia.

The US-China trade dispute started in the second half of 2018. On 18 September 2018, the Office of the United States Trade Representative announced that effective from 24 September 2018, a 10% tariff shall be imposed on China's 5,745 types of imported goods with total value of US$200 billion. The Group's wooden products exported to the United States are among those imported goods being affected. As the volume of the Group's export business to the United States accounts for a large proportion of the Group's total business volume, the additional tariffs imposed by the United States government has damaged the profit margin of the Group's products exported to the United States, which has directly impacted the performance of the Group in the second half of the Year. As a result, the gross profit margin of this segment decreased. In consideration that the US-China trade friction will continue to adversely affect the future profitability of the Group, the Group is required to recognise asset impairment of its production facilities and lease prepayments. Therefore, manufacturing and sales of wooden products of the Group recorded losses, and such losses grew to approximately RMB186.1 million from approximately RMB44.5 million in 2017.

Since 2010, the Group's self-owned brand retail business engaged in the retail sales of leisure household products in the PRC. However, due to the weak domestic demand for leisure household products, the Group's retail business continued to record losses. The Group aims to improve the operation by improving its cost controls, and will realign its business direction whenever appropriate.

The Group's renewable energy business involves the recycling of leftover sawdust from the production of our wooden products into biomass pellet fuel. During the Year, the Group's renewable energy business recorded a decrease of 27.5% in revenue to approximately RMB14.6 million, and a decrease of 29.1% in profit to approximately RMB2.5 million (2017: revenue of RMB20.1 million and profit of RMB3.5 million), which is mainly due to the fierce domestic competition in the renewable energy market.

Market review

During the Year, the distribution of revenue from our global markets are as follows:

	Revenue			**% to total revenue**	
	2018	2017	Change	**2018**	2017
	RMB'000	*RMB'000*	%	**%**	%
The PRC	**146,119**	107,332	36.1%	**23%**	23%
North America	**260,111**	236,279	10.1%	**41%**	51%
Europe	**30,349**	18,303	65.8%	**5%**	4%
Asia Pacific (Exclusive of the PRC)	**10,162**	16,945	–40.0%	**2%**	4%
Australasia	**187,945**	83,332	125.5%	**29%**	18%
	634,686	462,191	37.3%	**100%**	100%

The North American market represents the largest income stream of the Group, accounting for 41% of the total revenue of the Group (2017:51%). During the Year, revenue from the North American market grew by 10.1% to RMB260.1 million (2017: RMB236.3 million). Despite growth in revenue, the US-China trade dispute as previously mentioned will continue to bring negative impact to the profitability of the Group in the future. Therefore, the Group will continue to enhance its product competitiveness and closely monitor the market conditions.

In 2018, the GDP of the PRC recorded a growth rate of 6.6% as compared to that of last year, representing the lowest growth rate in China's 28-year economic performance. By quarter, the economic growth rate continued to decrease with a year-on-year growth rate of 6.8% for the first quarter, 6.7% for the second quarter, 6.5% for the third quarter, and 6.4% for the fourth quarter, respectively. The statistics indicated that economic growth is slowing down in the PRC. Despite slowing economic growth, the Group's revenue from the PRC market increased by 36.1% to RMB146.1 million (2017: RMB107.3 million), and accounted for 23% of the total revenue (2017:23%), which is the third largest revenue source of the Group. The increase was contributed by the growth in turnover from trading of timber.

The Australasia market has become the second largest income stream of the Group, accounting for 29% (2017:18%) of the Group's total revenue. Income from the Australasia market recorded a strong growth by 125.5% to RMB187.9 million (2017: RMB83.3 million) due to the successful launch of timber houses and their related parts and structure products in the region. However, the number of buildings in the Australian property market reached its peak by the second half of 2018 with a noticeable downward trend. It is expected that there will be difficulty in sustaining strong growth in 2019.

Financial Review

Revenue and gross profit margin by product category

	Revenue			**% to total revenue**		**Gross margin**	
	2018	2017	Change	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	%	**%**	%	**%**	%
Timber houses and their related parts and structures	**496,211**	302,761	63.9%	**78.2%**	65.4%	**11.7%**	4.0%
Leisure household products							
Outdoor and indoor furniture	**13,075**	17,467	–25.1%	**2.1%**	3.8%	**16.2%**	11.0%
Recreational products	**14,697**	9,123	61.1%	**2.3%**	2.0%	**4.3%**	20.5%
Landscape garden products	**13,474**	64,556	–79.1%	**2.1%**	14.0%	**16.9%**	11.7%
Pet-home designs	**11,441**	19,686	–41.9%	**1.8%**	4.3%	**10.2%**	6.1%
Trading of timber	**71,228**	28,528	149.7%	**11.2%**	6.2%	**–0.1%**	5.9%
Renewable energy products	**14,560**	20,070	–27.5%	**2.3%**	4.3%	**18.0%**	29.1%
Total	**634,686**	462,191	37.3%	**100.0%**	100.0%	**10.8%**	7.0%

Sales of timber houses and their related parts and structures remained the largest income stream of the Group in 2018. Revenue from such category increased by 63.9% to RMB496.2 million (2017: RMB302.8 million), representing 78.2% of total sales for the Year (2017: 65.4%), mainly due to the strong growth in the Australasia market.

Overall revenue from the leisure household products decreased by 52.5% to RMB52.7 million (2017: RMB110.8 million), as a result of the significant decrease in revenue from landscape garden products by 79.1% to RMB13.5 million (2017: RMB64.6 million). Such decrease is mainly due to the declining demand for landscape garden products of the Group in the North American market.

Due to the US-China trade dispute, market uncertainties continued to grow. As a result, the Group began to lower its inventory level of raw materials from the fourth quarter of 2018. As compared with last year, turnover from trading of timber increased by 149.7% to RMB71.2 million (2017: RMB28.5 million).

During the Year, the Group's renewable energy business recorded a decrease by 27.5% to approximately RMB14.6 million (2017: RMB20.1 million), mainly attributable to the fierce domestic competition in the renewable energy market.

Other revenue

During the Year, our other revenue decreased to RMB9.5 million (2017: RMB15.8 million) mainly due to the decrease in government subsidies amounting to RMB7.0 million (2017: RMB11.4 million).

Other net loss

The Group recorded other net loss of RMB180.0 million for the Year (2017: RMB14.9 million). Such loss were mainly due to the impairment loss recognised in respect of our production facilities, lease prepayments and inventories amounted to approximately RMB139.3 million, RMB23.3 million and RMB7.9 million respectively.

Selling and distribution expenses

Our selling and distribution expenses incurred during the Year were RMB22.3 million (2017: RMB17.6 million) which was a result of the increase in turnover and number of shipments during the Year.

Administrative expenses

Our administrative expenses incurred during the Year amounted to RMB49.2 million (2017: RMB47.2 million), which was similar to 2017.

Finance costs

Our finance costs increased to RMB8.9 million (2017: RMB6.2 million) as there were no interest expenses capitalised during the Year.

Income tax expense

Our income tax expense amounted to RMB2.1 million (2017: RMB2.4 million), primarily due to the deferred tax charged to profit or loss in respect of the deferred income offset against impairment of property, plant and equipment and lease prepayments during the Year.

Loss for the Year

As a result of the foregoing factors, loss for the Year is RMB184.9 million (2017: RMB40.6 million).

Dividend

The Board does not recommend a final dividend for the Year (2017: Nil).

Liquidity and capital resources

The Group principally meets its working capital and other liquidity requirements through operating cash flows and proceeds from bank borrowings. The Group anticipates that it can sufficiently meet funding needs for working capital and capital expenditure. As at 31 December 2018, the Group had current assets of RMB618.4 million (31 December 2017: RMB721.1 million), of which bank deposits and cash (including pledged deposits) were RMB56.1 million (31 December 2017: RMB191.8 million).

The Group's cash is generally deposited with banks and denominated mostly in RMB. As at 31 December 2018, total available banking facilities of the Group amounted to RMB237.2 million (31 December 2017: RMB396.1 million), banking facilities utilised as at 31 December 2018 were RMB91.2 million (31 December 2017: RMB233.2 million) and these were mainly denominated in RMB and USD. All of the Group's banking facilities were subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions.

As at 31 December 2018, the ratio of total borrowings to total assets and net borrowings to total equity of the Group were 9.3% and 5.5%, respectively (31 December 2017: 16.7% and 5.1% respectively), while current ratio and quick ratio were 3.1:1 and 1.4:1 respectively (31 December 2017: 2.2:1 and 1.2:1 respectively).

Pledge of assets

As at 31 December 2018, the Group pledged its plant and machinery, lease prepayments and buildings held for own use and construction in progress with net book value of RMB142.6 million (31 December 2017: RMB243.0 million) and deposits with banks of RMB18.1 million (31 December 2017: RMB78.3 million) mainly for the purpose of securing bank loans and financial derivative contracts issued by banks to the Group.

Capital expenditure

During the Year, the Group's total expenditure in respect of property, plant and equipment and non-current prepayments for acquisitions of property, plant and equipment amounted to RMB19.9 million (2017: RMB95.7 million).

Foreign currency risks

The Group's sales are mainly denominated in USD and RMB while our cost of sales and operating expenses are mainly denominated in RMB. Therefore, the Group's profit margin would be affected if RMB appreciates against USD as the Group may not be able to reflect the appreciation in selling prices to overseas customers that were determined in USD. In response to this, the Group manages fluctuations in the exchange rate of RMB against USD by entering into foreign currency forward contracts mainly denominated in USD and RMB with banks when sales contracts were entered with overseas customers.

With the increasing level of our overseas purchases, the Group also manages foreign exchange risk by matching the cash inflow from our export sales denominated in USD with the cash outflow from our import of timber denominated in USD.

At 31 December 2018, the Group had foreign currency forward contracts with their fair values recognised as derivative financial instruments (assets) of RMB2,736,000 (2017: RMBNil) and derivative financial instruments (liabilities) of RMB2,546,000 (2017: RMB12,307,000). The changes in fair value of the foreign currency forward contracts were recognised in the consolidated statement of profit or loss. All of the foreign currency forward contracts are to be settled within one year.

Use of net proceeds from the global offering, placing and subscription

The shares of the Company were listed on the Main Board of the Stock Exchange on 6 July 2012. Net proceeds from the global offering were approximately HK$144.3 million (after deducting the underwriting commission and relevant expenses).

On 26 June 2014, the Company issued 200,000,000 new ordinary shares of HK$0.01 each at HK$0.80 per share by way of placing (the "June 2014 Placement"). On 7 October 2014, the Company issued 165,000,000 new ordinary shares of HK$0.01 each at HK$0.93 per share by way of placing (the "October 2014 Placement"). On 5 August 2015, the Company issued 272,600,000 new ordinary shares of HK$0.01 each at HK$0.55 per share by way of placing (the "August 2015 Subscription"). On 21 December 2015, the Company issued 857,945,000 new ordinary shares of HK$0.01 each at HK$0.20 per share by way of Open Offer (the "December 2015 Open Offer"). On 10 February 2017, the Company issued 514,500,000 new ordinary shares of HK$0.01 each at HK$0.13 per share by way of subscription (the "February 2017 Subscription"). The net proceeds from the issue of new shares under the June 2014 Placement, October 2014 Placement, August 2015 Subscription, December 2015 Open Offer, February 2017 Subscription after deducting related transaction costs, were HK$155.0 million, HK$148.0 million, HK$149.7 million, HK$170.0 million, HK$66.7 million respectively.

As at 31 December 2018, the aforesaid proceeds were utilised, except for proceeds from placing in October 2014 and open offering in December 2015. All the unutilised proceeds were deposited in licensed banks in Hong Kong and the PRC. A breakdown of the use of net proceeds is set forth in the table below:

	The financing of the acquisition of automated production machinery and equipment *HK$' million*	Establishing new production facilities *HK$' million*	Establishing own-brand self-operated store network *HK$' million*	Merger and acquisition of small to medium sized companies, other timber processing plants, and/ or other resources *HK$' million*	Own-brand promotion and other marketing events *HK$' million*	Increasing and enhancing our research and development activities *HK$' million*	Repayment of bank borrowing *HK$' million*	General working capital *HK$' million*	Total *HK$' million*
From October 2014 Placement									
Amount of net proceeds	N/A	73.0	N/A	27.3	N/A	12.7	10.0	25.0	148.0
Percentage to total net proceeds	N/A	49.3%	N/A	18.4%	N/A	8.6%	6.8%	16.9%	100.0%
Utilised amount as at 31 December 2018	N/A	73.0	N/A	27.3	N/A	1.3	10.0	25.0	136.6
Unutilised amount as at 31 December 2018	N/A	–	N/A	–	N/A	11.4	–	–	11.4
From December 2015 Open Offer									
Amount of net proceeds	119.0	N/A	N/A	N/A	N/A	17.0	N/A	34.0	170.0
Percentage to total net proceeds	70.0%	N/A	N/A	N/A	N/A	10.0%	N/A	20.0%	100%
Utilised amount as at 31 December 2018	105.8	N/A	N/A	N/A	N/A	17.0	N/A	34.0	156.8
Unutilised amount as at 31 December 2018	13.2	N/A	N/A	N/A	N/A	–	N/A	–	13.2

Human resources

As at 31 December 2018, we employed a total of 426 (2017: 510) full-time employees, mainly in the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. The Group's total expenses on the remuneration of employees (including full-time and part-time employees) for the Year were RMB35.5 million (2017: RMB32.6 million), representing 5.6% (2017: 7.1%) of the revenue of the Group. The Group has been consistently increasing production process automation, strengthening the training of staff with an emphasis on high-technique processing with a mission on the continuous development and enhancing of competitiveness. The Group offered highly competitive salary packages, as well as discretionary bonuses and contribution to social insurance to its employees.

The Group's emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses are also awarded to employees and directors according to the assessment of individual performance. Since the adoption of the share option scheme on 15 June 2012 and up to 31 December 2018, no options have been granted.

Events after the reporting period

The Group has no material events after the reporting period.

Prospects

Following the US-China trade talk at the end of February 2019, market conditions appeared to be improved, as the US side agreed to delay the increase of tariffs on the export of Chinese goods to the US to 25% and maintain at 10%. However, the Group expects that its US business segment in 2019 continues to face great uncertainties. Given the growing impact caused by the US-China trade war on China's economy, the manufacturing sector and the export sector both suffer a blow. Coupled with a weakened performance of the stock market and the property market, impaired individual consumer confidence, which will significantly increase the downward pressure on China's economy. The Brexit is bringing the uncertainty to the European economy, in addition, the number of constructions in the Australian property market also declines significantly. Given these factors, the Group's profitability is inevitably affected, putting tremendous pressure on the returns on assets and inventories. It is expected that the Group will continue to face challenges in its business environment in 2019. The Group will closely monitor the US-China trade dispute and the development of other overseas markets such as Australia, assess the impact on the Group, and identify necessary and decisive measures to minimize the negative impact on the Group.

Purchase, sale or redemption of listed securities

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

CORPORATE GOVERNANCE CODE

During the Year, the Company was in full compliance with the code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions A.1.1 and C.1.2.

The code provision A.1.1

Pursuant to code provision A.1.1 of the Corporate Governance Code, the Board meetings should be held at least four times a year at approximately quarterly intervals. The Board only held two regular meetings during the Year to approve the annual results for the year ended 31 December 2017 and interim results for the six months period ended 30 June 2018 whilst other matters of the Board were dealt with by written resolutions or ad hoc Board meeting.

The code provision C.1.2

Pursuant to code provision C.1.2, the management should provide all members of the Board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The Company has deviated from C.1.2 in that while the management has updated most of the Directors on a monthly basis about the business operation and performance of the Company, not all the Directors received such updates as the monthly updates were conducted on-site at the Group's factory in China. Members of the Board who did not attend such on-site meetings did not receive the updates. However, the management would provide detailed updates to all the Directors on a half-yearly and yearly basis. In the event there are any significant updates to be provided, the management will update all the Directors as early as practicable for discussion and resolution. The Company also has in place a system for every Director to make enquiries with the senior management about the business operation of the Group and to give suggestions or feedback in the event such Director is not able to attend the monthly on-site updates session.

MODEL CODE

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the Year.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the Year have been reviewed by the audit committee of the Company.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the Year have been compared by the Company's auditors, BDO Limited, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by BDO Limited in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the Year (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 21 May 2019 to 24 May 2019 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for attending and voting at the Annual General Meeting, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 20 May 2019.

GENERAL

A circular containing, inter alia, the information required by the Listing Rules, together with the notice of the Annual General Meeting, will be despatched to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Company's and the Stock Exchange's websites. The Company's annual report for the Year in accordance with the relevant requirements of the Listing Rules will be dispatched to the Shareholders and published on the Company's and the Stock Exchange's websites in due course.

DEFINITIONS

"Annual General Meeting"	an annual general meeting of the Company to be held on 24 May 2019 or any adjournment thereof
"Board"	the board of Directors
"Company"	China Environmental Technology and Bioenergy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Corporate Governance Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Directors"	the directors of the Company
"EUR"	Euro, the lawful currency of the European Union
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"PRC" or "China"	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, The Macao Special Administrative Region of the PRC and Taiwan

"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	The United States of America
"USD"	United States dollars, the lawful currency of the US
"Year"	the year ended 31 December 2018
"Zhangping Kimura"	Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司), an indirectly wholly-owned subsidiary of the Company
"%"	per cent.

By order of the Board of
China Environmental Technology and Bioenergy Holdings Limited
Xie Qingmei
Chairlady

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Ms. Xie Qingmei and Mr. Wu Zheyan, the non-executive Director is Mr. Wu Dongping, and the independent non-executive Directors are Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang.