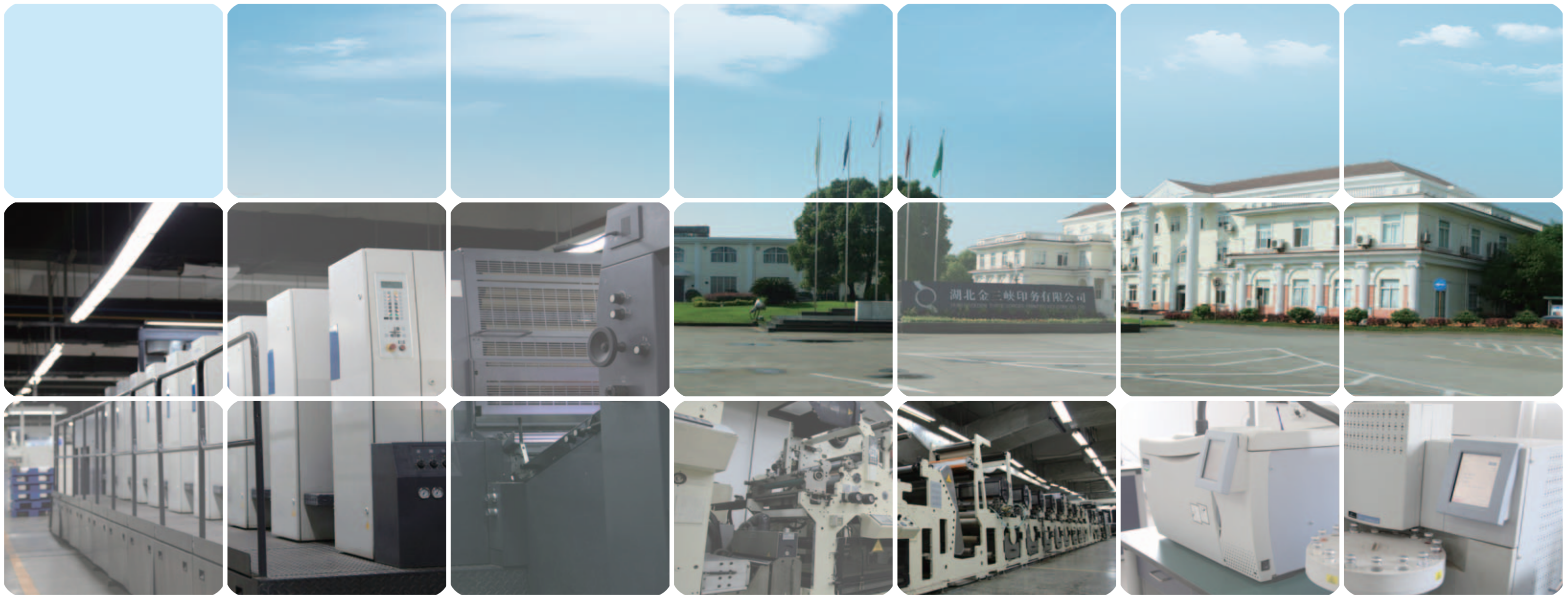
JIAYAO HOLDINGS LIMITED
嘉耀控股有限公司

Incorporated in the Cayman Islands with Limited Liability

Stock Code: 1626



SHARE OFFER

Sole Sponsor

RaffAello CAPITAL LIMITED

Joint Bookrunners and Joint Lead Managers

第一上海 FIRST SHANGHAI GROUP FIRST SHANGHAI SECURITIES LIMITED

RaffAello Securities (HK) Ltd

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

JIA YAO HOLDINGS LIMITED
嘉耀控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PUBLIC OFFER AND PLACING

Number of Offer Shares	**:**	**75,000,000 Shares**
Number of Placing Shares	**:**	**67,500,000 Shares (subject to re-allocation)**
Number of Public Offer Shares	**:**	**7,500,000 Shares (subject to re-allocation)**
Maximum Offer Price	**:**	**HK$1.46 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full in Hong Kong dollars upon application and subject to refund (if any))**
Nominal value	**:**	**HK$0.01 each**
Stock code	**:**	**1626**

Sole Sponsor

RaffAello CAPITAL LIMITED

Joint Bookrunners and Joint Lead Managers

第一上海 FIRST SHANGHAI GROUP FIRST SHANGHAI SECURITIES LIMITED

RaffAello Securities (HK) Ltd

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered and sold within the United States or to, or for the account or benefit of US persons, except that Offer Shares may be offered or sold outside the United States in accordance with Regulation S.

The final Offer Price is expected to be determined by agreement among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around 20 June 2014 or on such later date as may be agreed among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and, in any event, not later than 23 June 2014. The Offer Price will be not more than HK$1.46 per Offer Share and is currently expected to be not less than HK$1.00 per Offer Share, unless otherwise announced. Investors for the Offer Shares are required to pay, on application, the maximum Offer Price of HK$1.46 for each Public Offer Share together with 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee subject to refund if the Offer Price as finally determined should be lower than HK$1.46. The Joint Bookrunners (for themselves and on behalf of the other Underwriters), and with the consent of our Company and the Sole Sponsor, may reduce the number of Offer Shares and/or the indicative offer price range that is stated in this prospectus at any time prior to the morning of the last day for the lodging of applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Stock Exchange (**www.hkexnews.hk**) and our Company (**www.jiayaoholdings.com**) not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Public Offer Shares have been submitted prior to the last day for lodging applications in respect of the Public Offer, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus. If, for whatever reason, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) are not able to agree on the Offer Price on or before 23 June 2014, the Share Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Joint Bookrunners (for themselves and on behalf of the other Underwriters) have the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on the Stock Exchange. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the distribution of this prospectus and the related Application Forms to the public. Accordingly, this prospectus or the related Application Forms may not be used for the purpose of, and does not (and is not intended to) constitute an offer or invitation in any jurisdiction outside Hong Kong or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions may be restricted by law and therefore persons who possess this prospectus or any of the related Application Forms should inform themselves about, and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

17 June 2014

EXPECTED TIMETABLE (Note 1)

If there is any change in the following expected timetable of the Share Offer, our Company will issue an announcement to be published on the websites of the Stock Exchange (**www.hkexnews.hk**) and our Company (**www.jiayaoholdings.com**).

Application lists of the Public Offer open *(Note 2)*	11:45 a.m. on Friday, 20 June 2014
Latest time for lodging **WHITE** and **YELLOW** Application Forms and giving **electronic application instructions** to HKSCC *(Note 3)*	12:00 noon on Friday, 20 June 2014
Application lists of the Public Offer close *(Note 2)*	12:00 noon on Friday, 20 June 2014
Expected Price Determination Date *(Note 4)*	Friday, 20 June 2014
Announcement of the Offer Price, the level of indication of interests in the Placing, the level of applications and basis of allocation of the Public Offer Shares to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the websites of the Stock Exchange (**www.hkexnews.hk**) and our Company (**www.jiayaoholdings.com**) *(Note 6)* on or before	Thursday, 26 June 2014
Announcement of the results of allocations (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels including the website of the Stock Exchange at **www.hkexnews.hk** and the website of our Company at **www.jiayaoholdings.com** *(Note 6)* as described in the section headed "How to Apply for the Public Offer Shares — Publication of Results" in this prospectus on or before	Thursday, 26 June 2014
Results of allocations in the Public Offer will be available at **www.unioniporesults.com.hk** with a "search by ID" function from	Thursday, 26 June 2014
Despatch of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications on or before *(Note 5)*	Thursday, 26 June 2014
Refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications to be despatched on or before *(Note 5)*	Thursday, 26 June 2014
Dealings in the Shares on the Main Board to commence at	9:00 a.m. on Friday, 27 June 2014

Notes:

1. All times and dates refer to Hong Kong local time and dates, except as otherwise stated. Details of the structure of the Share Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 20 June 2014, the application lists will not open and close on that day. Further information is set out in the section headed "How to Apply for the Public Offer Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus. If the application lists do not open and close on Friday, 20 June 2014, the dates mentioned above may be affected. We will make a press announcement in such event.

3. Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for the Public Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

4. The Offer Price is expected to be determined at or around 12:00 noon on Friday, 20 June 2014, and, in any event, not later than Monday, 23 June 2014. If, for any reason, the Offer Price is not agreed among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or before Monday, 23 June 2014, the Share Offer will not become unconditional and will lapse.

5. Applicants who apply for 1,000,000 Public Offer Shares or more under the Public Offer on **WHITE** Application Forms and have provided all required information may collect refund cheque(s) and/or share certificate(s) in person from our Company's Hong Kong Branch Share Registrar, Union Registrars Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, 26 June 2014. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation's chop. Identification and (where applicable) authorisation documents acceptable to our Company's Hong Kong Branch Share Registrar, Union Registrars Limited, must be produced at the time of collection. Applicants who apply for 1,000,000 Public Offer Shares or more under the Public Offer on **YELLOW** Application Forms and have provided all required information may collect their refund cheque(s) (if any) in person but may not elect to collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. Further details are set out in the section headed "How to Apply for the Public Offer Shares — Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

6. None of the website or any of the information contained on the website forms part of this prospectus.

Share certificates for the Public Offer Shares are expected to be issued on Thursday, 26 June 2014, but they will only become valid certificates of title at 8:00 a.m. on Friday, 27 June 2014 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of the share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. For further details in relation to the Share Offer, including its conditions, please see the sections headed "How to Apply for the Public Offer Shares" and "Structure and Conditions of the Share Offer" in this prospectus.

This prospectus is issued by our Company solely in connection with the Public Offer and the Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offer of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an applicable exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decisions. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not given or made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Lead Managers, the Joint Bookrunners, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person or party involved in the Share Offer. For the avoidance of doubt, information contained in our website, located at ***www.jiayaoholdings.com*** *does not form part of this prospectus.*

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

In 2013, our Group ceased its paper production business that was carried out by Hubei Mengke, i.e. the discontinued operation. Please refer to Note 13 and Note 14 to the Accountants' Report set out in Appendix I to this prospectus for details of our discontinued operation and its financial performance. Unless otherwise specified, our financial information disclosed in this prospectus only includes our Continuing Operations.

OVERVIEW

We are principally engaged in the design, manufacture and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC. Our principal operating subsidiary, Hubei Golden Three Gorges, has been established in the PRC for over two decades. Our history can be traced back to 2001 when our Controlling Shareholder, Chairman and executive Director, Mr. Yang, beneficially acquired a controlling stake in Hubei Golden Three Gorges. We have accumulated over 20 years of experience in the industry and established strong business relationship with our major customers.

We manufacture various types of paper cigarette packages for our customers, which can be broadly divided into (i) hard and soft cigarette packets; (ii) cigarette cartons; and (iii) gift sets designed to pack and carry various numbers of cigarette packets. All of the sales of our paper cigarette package products are made to customers in the PRC. According to the Euromonitor Report, our Group had a national market share of approximately 1.5% in 2013.

During the Track Record Period, we manufactured paper cigarette packages for ten Provincial Tobacco Industrial Companies and five non-provincial companies from the China Tobacco Industry Development Center. For the years ended 31 December 2011, 2012 and 2013, sales from these 15 customers accounted for approximately 92.8%, 82.0% and 91.8% of our total revenue respectively. Our Group supplied paper cigarette packages for 15 of the 30 Key Cigarette Brands designated by STMA, including Pride (嬌子), Haomao (好貓), Yunyan (雲煙) and Yuxi (玉溪).

In addition to paper cigarette packages, leveraging on our expertise in paper cigarette packages, we also commenced production of social product paper packages for drugs and medicines, liquor and alcoholic beverages, food and other social products in 2005. During the Track Record Period, our major customers of these social products included major brands such as Jing Brand (勁牌). We design and produce colour boxes, labels, gift sets and paper bags for our customers in different industries according to their specific product image design and package requirements.

COMPETITIVE STRENGTHS

Our Directors consider that we possess the following competitive strengths:

- We are committed to product design and technology development;
- We possess the essential comprehensive capabilities for tendering purpose;
- We are an approved paper cigarette packages supplier of key cigarette brands in the PRC; and
- We have an experienced and capable management team and operating staff with in-depth knowledge of the paper cigarette packages industry.

BUSINESS STRATEGIES

Our principal business objectives are to continue strengthening our market position in the paper cigarette packages industry through our existing and potential customers, and to capture business opportunities in the packaging industry for social product paper packages. We aim to attain our objectives through the following strategies:

- To increase market penetration by enhancing our design and development capabilities;
- To strengthen our sales and marketing efforts by enhancing relationship with existing customers and developing business with potential customers;
- To enhance our product variety by further developing our social product paper packages; and
- To advance our machinery and equipment to improve our production quality.

CUSTOMERS

The PRC cigarette market is monopolised by the PRC government, primarily STMA and CNTC. In recent years, the PRC government has implemented policies to restructure and consolidate the tobacco industry. As a result, only 26 cigarette manufacturers have remained in the PRC since 2010. These 26 companies are subordinated to CNTC, including 16 Provincial Tobacco Industrial Companies, nine non-provincial companies from the China Tobacco Industry Development Center and one tobacco corporation, Shanghai Tobacco. During the Track Record Period, we manufactured paper cigarette packages for ten Provincial Tobacco Industrial Companies and five non-provincial companies from the China Tobacco Industry Development Center. As at the Latest Practicable Date, we are one of the approved suppliers of all of these 15 cigarette manufacturers.

Revenue from our five largest customers, which were cigarette manufacturers or paper cigarette packages manufacturer, accounted for approximately 69.3%, 57.9% and 59.6% of our total revenue for the three years ended 31 December 2011, 2012 and 2013, respectively. China Tobacco Chuanyu was the largest customer of our Group during the Track Record Period and our revenue from this customer accounted for approximately 19.9%, 20.6% and 22.7% of our total revenue during each of the three years ended 31 December 2011, 2012 and 2013, respectively. The table below sets out the sales contributions of our five largest customers during the Track Record Period:

Name of customer	**Year in which the customer was one of our Group's five largest customers and the approximate percentage of sales during the relevant year**		
	2011	**2012**	**2013**
China Tobacco Chuanyu	19.9%	20.6%	22.7%
China Tobacco Hubei	15.0%	5.7%	11.9%
China Tobacco Shaanxi	11.6%	8.4%	6.5%
China Tobacco Yunnan *(Note 1)*	17.0%	14.2%	6.9%
China Tobacco Henan	—	—	11.6%
Customer A *(Note 2)*	—	9.0%	—
Heilongjiang Tobacco Industrial	5.8%	—	—

Note 1: Our Group entered into sale and purchase contracts with Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan.

Note 2: Customer A engages in various business segments covering manufacture and sales of packaging papers and manufacture of paper cigarette packages. For the year ended 31 December 2012, we also purchased paper from Customer A who required our Group to produce paper cigarette packages using the paper they supplied. Such arrangement was in place as this could ensure the quality of the products. During the Track Record Period, the percentage of revenue related to Customer A was 1.3%, 9.0% and 2.4%, respectively, while the cost related was 1.5%, 11.6% and 3.0%, respectively. The gross profit related to Customer A during the same period amounted to approximately RMB0.9 million, RMB3.0 million and RMB1.8 million, respectively.

During the Track Record Period, our revenue from the ten Provincial Tobacco Industrial Companies and the five non-provincial companies from the China Tobacco Industry Development Center accounted for approximately 92.8%, 82.0% and 91.8% of our total revenue. Notwithstanding these 15 customers are all state-owned enterprises subordinated to CNTC and each of them is a connected person of our Company, our Directors consider that our Group has no reliance on these customers or CNTC as a whole. For further details, please refer to the section headed "Business — Our Customers — Five largest customers during the Track Record Period" on page 117 in this prospectus.

As required by the PRC government and in accordance with the relevant rules issued by STMA and CNTC, cigarette manufacturers in the PRC have gradually adopted the tendering system for the selection of paper cigarette packages suppliers since 2011. For those customers which are cigarette manufacturers, they have been using the tendering process for the purchase of paper cigarette packages since 2011.

PROCUREMENT

The major raw material used by our Group is paper. We also use other raw materials including ink and aluminum foil. The following table sets forth a breakdown of our Group's cost of raw materials during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Paper	153,199	51.2	172,967	55.2	197,482	58.5
Others	49,172	16.4	53,701	17.1	64,582	19.1
Total	202,371	67.6	226,668	72.3	262,064	77.6

Our Group procured approximately 14,176 tons, 14,791 tons and 18,485 tons of paper (including the amount of paper we purchased from our former subsidiary Hubei Mengke) and the average procurement price of paper was approximately RMB10,856 per ton, RMB11,665 per ton and RMB11,127 per ton for the years ended 31 December 2011, 2012 and 2013, respectively.

We have during the Track Record Period maintained relations with several alternative suppliers capable of supplying us with paper, ink and aluminum foil of similar quality and price levels. We usually obtain quotations from at least two potential suppliers, although some of our customers require our Group to source raw materials from their designated suppliers. Our purchases from our largest supplier accounted for approximately 7.0%, 14.0% and 30.7% of our Group's total purchases for each of the three years of the Track Record Period respectively. Purchases from our five largest suppliers accounted for approximately 27.6%, 34.9% and 50.0% of our Group's total purchases of Continuing Operations for the Track Record Period respectively.

PRODUCTION FACILITIES

Our self-owned production bases are located at our Yichang Factory and Dangyang Factory, with an aggregate gross floor area of approximately 43,986.0 sq.m.. During the Track Record Period, our Group carried out paper packages design and production activities for both paper cigarette packages and social product paper packages, mainly at the Yichang Factory. Our Group also has two production lines of paper cigarette packages at the Dangyang Factory to share the production workload and to further increase our production capacity in anticipation of potential business growth. Please refer to the section headed "Business — Production Facilities" on page 129 in this prospectus for details of the annual designed production capacity, actual production volume and the utilisation rates of our production facilities.

SHAREHOLDER INFORMATION

Immediately following completion of the Share Offer, Spearhead Leader, which is beneficially owned by Mr. Yang, will hold 209,362,000 Shares, representing approximately 69.79% of the issued share capital of our Company. For the purpose of the Listing Rules, Mr. Yang and Spearhead Leader are the Controlling Shareholders of our Company. Please refer to the section headed "Relationship with Controlling Shareholders" on page 198 in this prospectus for further details.

While our Directors are satisfied that our Group is capable of carrying on its business independently of our Controlling Shareholders, we have entered into certain transactions with our connected persons which will continue following the Listing and which will constitute continuing connected transactions under the Listing Rules. Please refer to the section headed "Connected Transactions" on page 185 in this prospectus for further details.

SUMMARY OF FINANCIAL INFORMATION

The following tables present some highlight of the key financial information of our Group for the years ended 31 December 2011, 2012 and 2013 respectively.

Highlights of the audited combined statements of profit or loss and other comprehensive income of our Group

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	426,248	438,533	495,773
Paper cigarette packages	411,461	411,408	469,513
Social product paper packages	14,787	27,125	26,260
Gross profit	126,997	125,039	157,922
Paper cigarette packages	125,711	120,232	153,884
Social product paper packages	1,286	4,807	4,038
Profit for the year from Continuing Operations	28,345	42,907	47,480

Sales of paper cigarette packages was our Group's key revenue driver which contributed 96.5%, 93.8% and 94.7% of our Group's total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Sales of social product paper packages contributed 3.5%, 6.2% and 5.3% of our Group's total revenue for the years ended 31 December 2011, 2012 and 2013, respectively.

The average selling price of paper cigarette packages, our Group's main product, was RMB1,908.8 per ten thousand pieces, RMB1,994.3 per ten thousand pieces and RMB1,958.6 per ten thousand pieces for the years ended 31 December 2011, 2012 and 2013, respectively. We do not provide sales volume and average selling price for our social product paper packages as their price varies significantly based on size, design and other factors.

Highlights of the audited combined balance sheets of our Group (including discontinued operation)

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	263,091	233,142	203,117
Current assets	471,181	619,916	365,633
Current liabilities	491,930	621,185	443,879
Net current liabilities	(20,749)	(1,269)	(78,246)
Non-current liabilities	23,674	3,407	61,866

Highlights of the audited combined statements of cash flows of our Group (including discontinued operation)

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	88,723	48,230	92,856
Net cash (used in)/generated from investing activities	(115,107)	(16,502)	6,823
Net cash generated from/(used in) financing activities	30,029	(22,208)	(111,554)

Highlight of the key financial ratios of our Group from Continuing Operations

	Year ended 31 December		
	2011	**2012**	**2013**
Net profit growth	(21.3%)	51.4%	10.7%
Gross profit margin	29.8%	28.5%	31.9%
Paper cigarette packages	30.6%	29.2%	32.8%
Social product paper packages	8.7%	17.7%	15.4%
Net profit margin	6.6%	9.8%	9.6%
Return on total assets	4.5%	6.2%	8.3%
Current ratio	0.9	0.9	0.8
Gearing ratio	155.5%	139.3%	443.7%
Debt to equity ratio	136.6%	117.6%	396.2%

For more information on our Group's key financial ratios, including a discussion on the fluctuation of these financial ratios over the Track Record Period, please see the section headed "Financial Information" on page 206 in this prospectus.

Net Current Liabilities

Historically, our Group's net current liability position reflected our significant amount of short-term borrowings used to fund property, plant and equipment, which are classified as long-term assets. As at 31 December 2011, 2012 and 2013, excluding current assets and liabilities related to discontinued operation of Hubei Mengke, our Group recorded net current liabilities of RMB61.6 million, RMB47.8 million and RMB78.2 million, respectively. As at 30 April 2014, our Group recorded a net current asset position of RMB17.8 million.

Compared to the net current liabilities of RMB78.2 million as at 31 December 2013, we had net current assets of RMB17.8 million as at 30 April 2014, mainly attributable to (i) the payment of RMB87.3 million due to former equity holders of a subsidiary using principally advances from a Controlling Shareholder which were capitalised; and (ii) the capitalisation of RMB22.9 million amounts due to a Controlling Shareholder and Mr. Feng, partially offset by an increase of RMB42.5 million in short term bank borrowings mainly due to the reclassification of certain bank borrowings from non-current to current liabilities.

We believe that we maintain sufficient liquidity and expect our liquidity position to improve based on the following considerations:

(i) As at 30 April 2014, our Group had unutilised banking facilities of approximately RMB170.1 million;

(ii) Our Group expects to receive approximately RMB42.3 million net proceeds from the Share Offer, of which approximately RMB3.8 million is reserved for working capital purposes;

(iii) Our Group expects to continue to generate stable positive cash flows from our operating activities which would further support our liquidity position; and

(iv) Our Group is in the process of applying to the relevant bank to extend the one-year term bank borrowings of RMB30.0 million to long term borrowings and expects to receive the bank's approval of such extension in the third quarter of 2014. Our Group plans to continue to procure long term bank facilities to improve our working capital position, and may use borrowings from such facilities to refinance our short term borrowings to the extent it is commercially feasible to do so. Our Group expects to be able to obtain such long term bank facilities based on our Group's credibility and long term relationship with the relevant banks.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2013 (being the date of our latest audited combined statements of financial results, as set out in the Accountant's Report in Appendix I to this prospectus) and up to the date of this prospectus.

For the four months ended 30 April 2014, our Group had revenue amounting to RMB128.6 million and gross profit amounting to RMB36.7 million, representing a gross profit margin of 28.5%. For the four months ended 30 April 2014, our sales volume of the paper cigarette packages was 64,641 ten thousand pieces and the average selling price was RMB1,885.1 per ten thousand pieces. For the four months ended 30 April 2013, our Group had revenue amounting to RMB125.8 million and gross profit amounting to RMB39.1 million, representing a gross profit margin of 31.1%. For the four months ended 30 April 2013, our sales volume of the paper cigarette packages was 62,811 ten thousand pieces and the average selling price was RMB1,895.1 per ten thousand pieces. The slight decrease in gross profit margin for the four months ended 30 April 2014, compared to that of the corresponding period in 2013, was mainly because of the product mix changes in our paper cigarette packages sold during the first four months of 2014. Our Reporting Accountants, HLB Hodgson Impey Cheng Limited, have conducted a review on the Subsequent Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

LISTING EXPENSES

We estimate to incur legal, professional and other fees (including underwriting commissions) with respect to the Listing in the total amount of HK$38.8 million (approximately RMB30.8 million). In accordance with HKFRS, listing related expenses directly attributable to the Share Offer are recorded as prepaid expenses, which will be deducted from equity upon Listing with the remaining listing related expenses charged through income statements.

For the years ended 31 December 2011, 2012 and 2013, our Group incurred listing expenses of nil, nil and RMB6.7 million, respectively, of which RMB5.8 million was fully charged to the income statement for the year ended 31 December 2013 and RMB0.9 million will be deducted from equity upon Listing. The remaining estimated listing expenses of RMB24.1 million is expected to be incurred in 2014, of which RMB16.4 million is expected to be charged to our income statement for the year ending 31 December 2014 and RMB7.7 million is expected to be deducted from equity upon Listing.

USE OF PROCEEDS

Assuming an Offer Price of HK$1.23 per Offer Share (being the mid-point of the indicative Offer Price range of HK$1.00 to HK$1.46 per Offer Share), the net proceeds from the Share Offer are estimated to be approximately HK$53.4 million (equivalent to approximately RMB42.3 million) after deducting the underwriting fees and other estimated expenses in connection with the Share Offer, including an aggregate amount of approximately HK$24.3 million (equivalent to approximately RMB19.3 million) in settlement of listing expenses paid on our behalf by related parties prior to the Listing.

Our Directors presently intend to apply the net proceeds as follows:

(1) approximately HK$17.7 million (equivalent to approximately RMB14.0 million), representing approximately 33.1% of the net proceeds from the Share Offer, will be utilised for the technical advance, renewal and upgrade of existing equipment;

(2) approximately HK$12.1 million (equivalent to approximately RMB9.6 million), representing approximately 22.7% of the net proceeds from the Share Offer, will be utilised for the procurement and installation of new equipment and machinery for expanding our product variety and enhancing our production capability;

(3) approximately HK$11.5 million (equivalent to approximately RMB9.1 million), representing approximately 21.5% of the net proceeds from the Share Offer, will be applied for the development of phase II of our Yichang production base for social product paper packages;

(4) approximately HK$4.4 million (equivalent to approximately RMB3.5 million), representing approximately 8.3% of the net proceeds from the Share Offer, will be used on the enhancement of the design and development capabilities of our Group;

(5) approximately HK$2.9 million (equivalent to approximately RMB2.3 million), representing approximately 5.4% of the net proceeds from the Share Offer, will be used for the expansion of the sales and marketing network of our Group in order to enhance our Group's relationship with the existing customers and explore business opportunities with potential customers; and

(6) approximately HK$4.8 million (equivalent to approximately RMB3.8 million), representing approximately 9.0% of the net proceeds from the Share Offer, will be used for general working capital purposes, including the repayment of shareholder loan amounting to approximately HK$0.9 million (equivalent to approximately RMB0.7 million) incurred by our Hong Kong subsidiaries as operating expenses, which is unsecured, interest-free and with no fixed term of repayment.

Please refer to the section headed "Future Plans and Use of Proceeds" on page 174 in this prospectus for further details.

DIVIDEND POLICY

For the three years ended 31 December 2011, 2012 and 2013, our subsidiaries declared to their then shareholders dividends of approximately RMB23.6 million, RMB37.9 million and RMB81.2 million respectively.

We do not have a fixed dividend policy. The form, frequency and amount of future dividends on the Shares will be at the discretion of the Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group as set forth in the section headed "Risk Factors" on page 29 in this prospectus and the cautionary notice regarding forward-looking statements contained in the section headed "Forward-looking Statements" on page 27 in this prospectus.

OFFERING STATISTICS

	Based on an Offer Price of HK$1.00	**Based on an Offer Price of HK$1.46**
Market capitalisation of our Shares at Listing(1)	HK$300 million	HK$438 million
Unaudited pro forma adjusted net tangible assets per Share(2)	HK$0.29	HK$0.40

Notes:

(1) The calculation of market capitalisation is based on 300,000,000 Shares expected to be in issue immediately after completion of the Share Offer.

(2) The unaudited pro forma adjusted net tangible assets per Share is based on 300,000,000 Shares expected to be in issue immediately after completion of the Share Offer. Please refer to "Unaudited Pro Forma Financial Information" set out in Appendix II to this prospectus for further details regarding the assumptions used and the calculation method.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" on page 29 in this prospectus, in particular the risks associated with (i) our heavy reliance on the sales of paper cigarette packages and the tightened tobacco control measures and consolidation within the PRC cigarette industry; (ii) the limited term of our sales contracts and the lack of minimum purchase amount under our sales contracts with our major customers; (iii) the projected slowdown of growth of the cigarette and the paper cigarette packages industries; and (iv) the global trend of increasing awareness of health and the health hazards associated with cigarette smoking. You should read the entire section carefully before you decide to invest in the Offer Shares.

NON-COMPLIANCE MATTERS

Our Group had not fully complied with certain PRC laws and regulations in the previous years, namely (i) our Group had not made social insurance contributions for certain temporary or part-time employees; (ii) prior to May 2013, our Group had not established a housing provident fund account, nor had we contributed to the housing provident fund for our staff prior to 1 January 2013; (iii) non-compliance with《貸款通則》(the Lending General Provisions*) of several loans of an aggregate amount of RMB55 million; and (iv) non-compliance with PRC Tendering Laws and Regulations, which requires a successful bidder of a tender to produce its own products and is prohibited from outsourcing such production.

For the details of our non-compliance incidents, please refer to the section headed "Business — Regulatory and Legal Matters — Non-compliance Incidents" on page 159 in this prospectus.

In this prospectus, unless the context requires otherwise, the following terms and expressions shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary of Technical Terms" in this prospectus.

"Accountants' Report"	the accountants report of our Group for each of the three years ended 31 December 2013 prepared by HLB Hodgson Impey Cheng Limited as set out in Appendix I to this prospectus
"Application Form(s)"	**WHITE** application form(s) and **YELLOW** application form(s) as the context may require, or any of them, relating to the Public Offer
"Articles"	the articles of association of our Company adopted on 6 June 2014 and as amended from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalisation Issue"	the issue of 224,990,000 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Written resolutions of our Shareholders passed on 6 June 2014" set out in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

"China Tobacco"	an official semi-monthly publication administered by STMA
"China Tobacco Chuanyu"	川渝中煙工業有限責任公司 (China Tobacco Chuanyu Industrial Co., Ltd*), one of the 16 Provincial Tobacco Industrial Companies and one of the five largest customers of our Group during the Track Reocrd Period(Note)
"China Tobacco Fujian"	福建中煙工業有限責任公司 (China Tobacco Fujian Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and a customer of our Group(Note)
"China Tobacco Guangdong"	廣東中煙工業有限責任公司 (China Tobacco Guangdong Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies(Note)
"China Tobacco Guizhou"	貴州中煙工業有限責任公司 (China Tobacco Guizhou Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and a customer of our Group(Note)
"China Tobacco Hebei"	河北中煙工業有限責任公司 (China Tobacco Hebei Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and a customer of our Group(Note)
"China Tobacco Henan"	河南中煙工業有限責任公司 (China Tobacco Henan Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and one of the five largest customers of our Group during the Track Reocrd Period(Note)
"China Tobacco Hubei"	湖北中煙工業有限責任公司 (China Tobacco Hubei Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies, one of the five largest customers of our Group during the Track Reocrd Period(Note) and the de facto equity holder of Hubei Three Gorges
"China Tobacco Hunan"	湖南中煙工業有限責任公司 (China Tobacco Hunan Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and a customer of our Group(Note)
"China Tobacco Industry Development Center"	中國煙草實業發展中心 (China Tobacco Industry Development Center*), which is directly under CNTC and STMA. For further details, please refer to the section headed "Industry Overview — Overview of Cigarette Market in the PRC — Government industry policies exert great impact on the cigarette market" in this prospectus

"China Tobacco Shaanxi"	陝西中煙工業有限責任公司 (China Tobacco Shaanxi Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and one of the five largest customers of our Group during the Track Reocrd Period*(Note)*
"China Tobacco Shandong"	山東中煙工業有限責任公司 (China Tobacco Shandong Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and a customer of our Group*(Note)*
"China Tobacco Yunnan"	雲南中煙工業有限責任公司 (China Tobacco Yunnan Industrial Co., Ltd.*), one of the 16 Provincial Tobacco Industrial Companies and one of the five largest customers of our Group during the Track Reocrd Period*(Note)*
"CNTC"	中國煙草總公司 (China National Tobacco Corporation*), a national corporation responsible for the management of the tobacco industry in the PRC. For further details, please refer to the section headed "Industry Overview — Overview of Cigarette Market in the PRC — Government industry policies exert great impact on the cigarette market" in this prospectus
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Jia Yao Holdings Limited 嘉耀控股有限公司, an exempted company incorporated in the Cayman Islands on 5 August 2013 under the Companies Law with limited liability
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Continuing Operations"	the continuing business operations of our Group in respect of sales of paper cigarette packages and social product paper packages, excluding the business operations of Hubei Mengke which had been disposed of by our Group in 2013
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules, and in the context of this prospectus means the controlling shareholders of our Company, namely Mr. Yang and Spearhead Leader

"Dangyang Factory"	the factory of our Group located in Dangyang, Hubei Province, the PRC
"Dangyang Liantong"	當陽金三峽聯通印務有限公司 (Dangyang Liantong Printing Industry Co. Ltd*), a company established in the PRC with limited liability on 12 May 2004 and is effectively indirectly owned as to approximately 87.15% by our Company and approximately 12.85% by Hubei Three Gorges
"Director(s)"	the director(s) of our Company
"Easy Creator"	Easy Creator Limited (宜佳有限公司), a company incorporated in Hong Kong with limited liability on 12 April 2013 and an indirect wholly-owned subsidiary of our Company
"EIT"	the PRC Enterprise Income Tax (中華人民共和國企業所得稅)
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)
"EIT Rules"	the Implementing Rules of the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例)
"Euromonitor"	Euromonitor International Ltd, an Independent Third Party, which is a market research company with a focus on industry, country, company and consumer lifestyle research
"Euromonitor Report"	the report commissioned by our Group and prepared by Euromonitor on cigarette and cigarette packages market in the PRC
"Environmental Protection Law"	the Environmental Protection Law of the PRC (中華人民共和國環境保護法)
"GAPP"	the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署)
"GDP"	gross domestic product
"Giant Harmony"	Giant Harmony Limited, a company incorporated in the BVI with limited liability on 15 March 2013 and a direct wholly-owned subsidiary of our Company
"Group", "our Group", "we" or "us"	our Company and its subsidiaries or, where the context otherwise requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or some or any of them

"Guangzhou Jingda"	廣州經大投資有限公司 (Guangzhou Jingda Investment Company Limited*), a company established in the PRC with limited liability on 25 June 2008, a former equity holder of Hubei Golden Three Gorges and was owned as to 90% by Mr. Wan Yong (an Independent Third Party who was a former director and former general manager of Hubei Golden Three Gorges), and owned as to 10% by Ms. Chen Yihong, the spouse of Mr. Wan Yong, an Independent Third Party
"Festiva"	Festiva Trading Pte Ltd (新加坡嘉興貿易(私人)有限公司), a company incorporated in Singapore with limited liability on 21 July 2000, a former equity holder of Hubei Golden Three Gorges and was owned as to approximately 99.99% by Mr. Yang and as to approximately 0.01% by Ms. Cai
"Hainan Hongta Cigarette"	海南紅塔卷煙有限責任公司 (Hainan Hongta Cigarette Co., Ltd*), one of the nine non-provincial companies from the China Tobacco Industry Development Center*(Note)*
"Heilongjiang Tobacco Industrial"	黑龍江煙草工業有限責任公司 (Heilongjiang Tobacco Industrial Co., Ltd.*), one of the nine non-provincial companies from the China Tobacco Industry Development Center (owned as to 35% by China Tobacco Hubei and 65% by China Tobacco Industry Development Center) and one of the five largest customers of our Group during the Track Record Period*(Note)*
"HKFRS"	Hong Kong Financial Reporting Standards, which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and their interpretations issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hongta Group"	紅塔煙草(集團)有限責任公司 (Hongta Tobacco (Group) Co., Ltd*), a subsidiary of China Tobacco Yunnan
"Hongyun Honghe Tobacco"	紅雲紅河(集團)有限責任公司 (Hongyun Honghe Tobacco (Group) Co., Ltd*), a subsidiary of China Tobacco Yunnan
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Branch Share Registrar"	Union Registrars Limited, the branch share registrar and transfer office of our Company in Hong Kong

"Hong Kong dollars" or "HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hubei Golden Three Gorges"	湖北金三峽印務有限公司 (Hubei Golden Three Gorges Printing Industry Co., Ltd*) (formerly known as 當陽富豪彩印有限公司 (Dangyang Fuhao Colour Printing Company Limited*), 宜昌金葉印務有限公司 (Yichang Jinye Printing Limited*) and 宜昌金三峽印務有限公司 (Yichang Golden Three Gorges Printing Limited*)), a company established in the PRC with limited liability on 15 August 1992 and is indirectly owned as to 82.86% by our Company and 17.14% by Hubei Three Gorges
"Hubei Mengke"	湖北盟科紙業有限公司 (Hubei Mengke Paper Co., Ltd*), a company established in the PRC with limited liability on 13 June 2005, a former non-wholly owned subsidiary of Hubei Golden Three Gorges which was owned as to 75% by Hubei Golden Three Gorges and 25% by Medicon before being disposed of by our Group and Medicon in 2013. Hubei Mengke is a supplier of our Group and an Independent Third Party
"Hubei Three Gorges"	湖北三峽煙草有限公司 (Hubei Three Gorges Tobacco Co., Ltd*), a company established in the PRC with limited liability on 29 May 1998, a 17.14% equity holder of Hubei Golden Three Gorges and is wholly-owned by 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration*), with China Tobacco Hubei being the de facto equity holder. For details, please refer to the section headed "History, Reorganisation and Group Structure — Minority Shareholder" in this prospectus
"Independent Third Party(ies)"	person(s) or company(ies) who/which is/are independent of and not connected with any of our Company, the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of our Company and its subsidiaries or any of their respective associates
"Inner Mongolia Kunming Cigarettes"	內蒙古昆明卷煙有限責任公司 (Inner Mongolia Kunming Cigarettes Co., Ltd.*), one of the nine non-provincial companies from the China Tobacco Industry Development Center and a customer of our Group*(Note)*
"Jia Shen"	Jia Shen International Investment Limited (嘉勝(香港)國際投資有限公司), a company incorporated in Hong Kong with limited liability on 15 April 2002 and is owned as to 99.99% by Mr. Yang and as to 0.01% by Mr. Yang Huafeng on trust for Ms. Cai, respectively

"Joint Bookrunners" or "Joint Lead Managers"	RaffAello Securities (HK) Limited, being a licensed corporation under SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities, and First Shanghai Securities Limited, being a licensed corporation under SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, which had been appointed as the joint bookrunners and the joint lead managers to the Share Offer
"King Gather"	King Gather Limited (帝寶有限公司), a company incorporated in Hong Kong with limited liability on 3 May 2013 and an indirect wholly-owned subsidiary of our Company
"Latest Practicable Date"	9 June 2014, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
"Listing"	the listing of our Shares on the Main Board
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date on which the Shares first commence trading on the Main Board
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Maoming Changyin"	茂名市長印工貿有限公司 (Maoming Changyin Industry and Trade Company Limited*), a company established in the PRC with limited liability on 27 November 2001, a former equity holder of Hubei Golden Three Gorges and is beneficially owned by Mr. Yang
"Maoming Company"	茂名市新嘉昌投資有限公司 (Maoming Xin Jia Chang Investment Company Limited*), a company established in the PRC with limited liability on 10 March 2009, a former equity holder of Hubei Golden Three Gorges and is beneficially owned as to 75% by Mr. Yang and 25% by Mr. Feng

"Maoming Jiachang"	茂名市嘉昌投資有限公司 (Maoming Jia Chang Investment Company Limited*), a company established in the PRC with limited liability on 15 August 2003, a former equity holder of Hubei Golden Three Gorges and is beneficially owned by Mr. Yang
"Medicon"	Medicon Pharmaceutical Industries Limited (盟科藥業有限公司), a company incorporated in Hong Kong with limited liability on 5 May 1999, a former equity holder of Hubei Golden Three Gorges and is beneficially owned as to approximately 99.99% by Mr. Yang and 0.01% by Ms. Cai
"Memorandum"	the memorandum of association of the Company as amended from time to time
"Ministry of Finance"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
"Mr. Feng"	Mr. Feng Bin (豐斌), the chief executive officer of our Company and an executive Director
"Mr. Yang"	Mr. Yang Yoong An (楊詠安), the Chairman, an executive Director and a Controlling Shareholder
"Ms. Cai"	Ms. Cai Yaohui (蔡瑤輝), the spouse of Mr. Yang
"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at which Shares are offered under the Share Offer, to be determined as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Offer Share(s)"	collectively, the Placing Shares and the Public Offer Shares
"Park Linker"	Park Linker Limited (柏滙有限公司), a company incorporated in Hong Kong with limited liability on 12 April 2013 and an indirect wholly-owned subsidiary of our Company

"Placing"	the conditional placing of the Placing Shares by the Placing Underwriter(s) on behalf of our Company for cash at the Offer Price with professional, institutional and other investors outside of the United States as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Shares"	the 67,500,000 Shares initially being offered by our Company for subscription under the Placing, subject to re-allocation as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Placing Underwriter(s)"	the underwriter(s) of the Placing to be appointed by our Company
"Placing Underwriting Agreement"	the placing underwriting agreement relating to the Placing expected to be entered into on or around the Price Determination Date amongst our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners and the Placing Underwriter(s)
"PRC" or "China"	the People's Republic of China and, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth Session of the NPC on 27 October 2005 and effective on 1 January 2006 as amended, supplemented or otherwise modified from time to time
"PRC Government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities or, where the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, the legal advisers of our Company as to PRC law in connection with the Listing
"PRC Special Counsel"	Dacheng Law Offices, the legal advisers of our Company as to PRC law to advise our Group on certain specific contractual issues
"Price Determination Agreement"	the agreement to be entered into between our Company, the Sole Sponsor and the Joint Bookrunners (acting for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price

"Price Determination Date"	the date on which the Offer Price will be fixed for the purpose of the Share Offer, which is expected to be on or around 20 June 2014 but in any event no later than 23 June 2014
"Provincial Tobacco Industrial Companies"	the 16 state-owned provincial-level or equivalent cigarette manufacturers in the PRC which are subordinated to CNTC*(Note)*
"Public Offer"	the conditional offer of the Public Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Public Offer Shares"	the 7,500,000 Shares initially offered by our Company for subscription under the Public Offer, subject to re-allocation as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus
"Public Offer Underwriter(s)"	the underwriter(s) of the Public Offer whose names are set out in the section headed "Underwriting — Public Offer Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the public offer underwriting agreement dated 16 June 2014 relating to the Public Offer entered into amongst our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganisation"	the corporate reorganisation of our Group in preparation for the listing of the Shares as described under the paragraph headed "Corporate reorganisation" set out in Appendix V to this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中國國家外滙管理局), which is the PRC Government agency responsible for matters relating to foreign exchange administration
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Tobacco"	上海煙草集團有限責任公司 (Shanghai Tobacco Group Co., Ltd*), one of the 26 state-owned cigarette manufacturers in the PRC
"Shanxi Kunming Tobacco"	山西昆明煙草有限責任公司 (Shanxi Kunming Tobacco Co., Ltd.*), one of the nine non-provincial companies from the China Tobacco Industry Development Center and a customer of our Group*(Note)*
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"Shareholder(s)"	the holder(s) of the Shares
"Share Offer"	the Public Offer and the Placing
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 6 June 2014, a summary of its principal terms is set out under the paragraph headed "Share Option Scheme" set out in Appendix V to this prospectus
"Shenzhen Company"	深圳市溢恒源投資有限公司 (Shenzhen Yi Heng Yuan Investment Company Limited*), a company established in the PRC with limited liability on 26 March 2009, a former equity holder of Hubei Golden Three Gorges and is beneficially owned by Mr. Yang
"Shenzhen Creative"	深圳市創意村營銷策劃有限公司 (Shenzhen Creative Village Marketing Planning Co., Ltd.*), a company established in the PRC with limited liability on 17 May 2004 and deregistered on 12 August 2013, a former non-wholly-owned subsidiary of Hubei Golden Three Gorges
"Sole Sponsor"	RaffAello Capital Limited, a registered institution under the SFO and registered to conduct Type 6 (advising on corporate finance) regulated activity
"Spearhead Leader"	Spearhead Leader Limited, a company incorporated in the BVI on 20 March 2013 with limited liability, a Controlling Shareholder and is wholly-owned by Mr. Yang

"Shenzhen Tobacco Industrial"	深圳煙草工業有限責任公司 (Shenzhen Tobacco Industrial Co., Ltd*), one of the nine non-provincial companies from the China Tobacco Industry Development Center and a customer of our Group*(Note)*
"Star Glide"	Star Glide Limited, a company incorporated in the BVI on 3 July 2013 with limited liability, a Shareholder and is wholly-owned by Mr. Feng
"State"	the government of the PRC
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"STMA"	the State Tobacco Monopoly Administration of the PRC (中國國家煙草專賣局), a governmental administration responsible for the management of the tobacco industry in the PRC. For further details, please refer to the section headed "Industry Overview — Overview of Cigarette Market in the PRC — Government industry policies exert great impact on the cigarette market" in this prospectus
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning as defined in the Companies Ordinance
"substantial shareholders"	has the meaning ascribed to it under the Listing Rules
"Takeovers Code"	The Codes on Takeovers and Mergers and Share Buy-backs, as amended, modified and supplemented from time to time
"Track Record Period"	the period comprising the years ended 31 December 2011, 2012 and 2013
"Underwriters"	the Placing Underwriters and the Public Offer Underwriters
"Underwriting Agreements"	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement, further details of which are set out in the section headed "Underwriting" in this prospectus
"US" or "United States"	the United States of America
"US$" or "US Dollars"	United States dollars, the lawful currency of the United States
"U.S. Securities Act"	the United States Securities Act of 1933, as amended from time to time

"Yichang Company"	宜昌簡森商貿有限公司 (Yichang Jiansen Commerce Company Limited*), a company established in the PRC with limited liability on 5 July 2013, a former equity holder of Hubei Golden Three Gorges and is wholly-owned by Mr. Feng
"Yichang Factory"	the factory of our Group located in Yichang, Hubei Province, the PRC
"Yichang Three Gorges"	宜昌三峽工貿集團有限公司 (Yichang Three Gorges Industry & Trade Group Company Limited*) (formerly known as 宜昌金葉實業集團有限公司 (Yichang Jinye Enterprise Co., Ltd.*)), a company established in the PRC with limited liability on 8 January 1999, a former equity holder of Hubei Golden Three Gorges and was owned as to 84% by Hubei Three Gorges and 16% by Hubei Yuyang Huaxian Technology Company Limited (湖北玉陽化纖科技股份有限公司)
"Zhuhai Company"	珠海橫琴新區嘉創投資有限公司 (Zhuhai Heng Qin Xinqu Jia Chuang Investment Co., Ltd*), a company established in the PRC with limited liability on 7 November 2012 and is an Independent Third Party
"%"	per cent

Note: Each of these Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center is a company incorporated in the PRC. As these Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center are owned directly or indirectly by CNTC, which is the holding company of China Tobacco Hubei, each of them is a connected person of our Company under the Listing Rules. For details of their relationships with our Company, please refer to the section headed "Connected Transactions" in this prospectus.

In this prospectus, unless otherwise specified, RMB is converted into HK$ in an exchange rate of RMB0.7933 to HK$1.00. No representation is made that any amounts in RMB or HK$ were or could have been converted at the above rate or at any other rates or at all.

The English translation of the Chinese names of (i) a corporate entity established in the PRC; (ii) a PRC law, regulation or rule; (iii) a PRC governmental or regulatory authority; or (iv) an award, certificate or permit granted or issued by a PRC governmental or regulatory authority, has been provided for identification and reference purposes only.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC, Chinese names or titles of the PRC laws, regulations, rules, authorities, awards, certificates or permits and their English translations, the Chinese names shall prevail. The English translations of company or entity names in Chinese or another language which are marked with "" and the Chinese translations of company names in English which are marked with "*" are for identification purpose only.*

This glossary of technical terms contains certain definitions and other terms related to the business of our Group and used in this prospectus. The terms and their meanings may not correspond to the standard industry meanings or usage of those terms.

"30 Key Cigarette Brands"	the 20 key backbone cigarette brands across the national market and the 10 key cigarette brands identified by STMA in 2008 according to 全國性卷煙重點骨幹品牌評價體系 (National Key Brand Evaluation System*)
"461 Plan"	the plan announced by STMA to develop twelve cigarette brands with each an annual sales revenue of over RMB40 billion, from which six brands would each reach a revenue of over RMB60 billion, and one brand would achieve an annual sales revenue of over RMB100 billion by 2015
"532 Plan"	the plan announced by STMA to develop five big cigarette brands each achieving an annual production volume of over two million cases, three mega cigarette brands each with an annual production volume of over three million cases, as well as two top-performing cigarette brands, each to reach an annual production of over five million cases by 2015
"carton"	a package which typically carries 10 packets of cigarettes
"case"	a measuring unit generally used in the cigarette package industry, where a case means a set of 250 carton packages and 2,500 packet packages
"cigarette packet"	a package which typically carries 20 sticks of cigarettes
"die-cutting"	piercing papers with a knife-edge steel blade
"embossing"	a production process which makes patterns or figures to stand out on the surface of paper under the force of embossing plate
"hot foil stamping"	the process of printing foil with the use of heat and pressure to papers
"intaglio printing"	intaglio printing method is a printing method by using printing plate with texts and graphics inside the hollow surface. When the printing plate is dipped into the ink tub, the surface of the printing plate will be coated with ink. By using a scraper closely attached to the plate to clear away all the ink on the surface of the printing plate, the ink remains on the graphics/texts surface inside the hollow surface of the plate can be printed on the surface of the printing materials

"ISO"	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organizations
"laminating"	the process through which papers and laminating materials (such as aluminum foil, metallised or laser film) are bonded together
"offset printing"	a printing method making use of the non-mixing feature between water and oil where the graphics and texts are first printed onto printing plates embodied in a rubber rolling cylinder serving as an intermediate carrier and then the graphics and texts would be reprinted on the relevant printing material
"piece"	a measuring unit generally used in the package industry, means a piece of unfolded carton package or cigarette packet. A single print of our cigarette package product typically contains four pieces of carton packages or 18 pieces of cigarette packets
"print"	a measuring unit generally used in the cigarette package industry, means a sheet of paper of standard dimensions with products printed on the surface. Each print consists different numbers of products depending on the sizes and shapes of the products. A case of paper cigarette carton packages and paper cigarette packets typically requires approximately 200 prints to produce
"printing plate"	a plate used in printing processes which may be made of metal, plastic, rubber or other materials. The image is put on the printing plate through photomechanical, photochemical or laser processes
"relief printing"	relief printing method is a kind of direct printing method. During the printing process, only graphics on the surface of the printing plate will be dipped onto the ink tub, the ink left on the graphics will be passed onto the surface of printing materials
"social product(s)"	consumable good(s) that are used recurrently, including but not limited to food, beverages, drugs and medicines
"sq.m."	square metres
"sq.ft."	square feet
"stencil printing"	stencil printing method uses a different printing technology as compared with other printing methods. Areas where the graphics and the texts appear on the porous plate are scraped out while blank areas are covered with rubber films. During the printing process, a rubber scraper is used to press ink through holes onto the surface of the printing materials

“sub-brand”	sub-brand is a brand under an umbrella cigarette brand. When a cigarette manufacturer offers multiple product lines under a cigarette brand, it usually registers an umbrella brand and gives a different sub-brand for each product line to differentiate it from the others. Cigarette under different sub-brands of the same brand might differ in flavour, package layout and price
“VOC”	volatile organic compound, an organic chemical compound which may affect the environment and human health

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our various measures to implement them;
- our capital expenditure plans;
- our operations and business prospects, including development plans for our existing and new businesses;
- projects under construction or planning;
- our financial condition;
- availability of bank loans and other forms of financing;
- estimates of production capacities and volumes, and operating costs;
- our dividend policy;
- the future developments and competitive environment in our industry;
- exchange rate fluctuations and restrictions;
- the regulatory environment for our industry in general; and
- the general economic trend of the PRC and general economic conditions.

The words "anticipate", "believe", "consider", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "project", "seek", "will", "would", and similar expressions and the negative of these words, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of our Directors with respect to future events, operations, liquidity and capital resources, and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties in this regard include, but are not limited to, those identified in the section headed "Risk Factors" in this prospectus, many of which are not within our Company's control. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial condition may be materially and adversely affected and actual outcomes may differ materially from those described in this prospectus as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance, and you should not place undue reliance on such forward-looking information.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

Prospective investors should, before making any investment decision in relation to the Offer Shares, consider all the information set forth in this prospectus carefully and, in particular, consider the following risks and special considerations in connection with an investment in our Company. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that almost all of our operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial condition and future prospects of our Group. The trading price of the Shares could decline due to any of these risks and you may be deprived of all or part of your investment.

In 2013, our Group ceased its paper production business that was carried out by Hubei Mengke, i.e. the discontinued operation. Please refer to Note 13 and Note 14 to the Accountants' Report set out in Appendix I to this prospectus for details of our discontinued operation and its financial performance. Unless otherwise specified, our financial information disclosed in this prospectus only includes our Continuing Operations.

RISK FACTORS RELATING TO OUR BUSINESS

We rely heavily on the sales of paper cigarette packages and any tightened tobacco control measures or consolidation within the PRC cigarette industry may adversely affect our Group's business and prospect

We are principally engaged in the design, manufacture and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC. For each of the three years ended 31 December 2011, 2012 and 2013, approximately 96.5%, 93.8% and 94.7% of our total revenue were respectively derived from sales of paper cigarette packages.

We may not be able to diversify our products and may continue to rely heavily on the sale of paper cigarette packages

For each of the years ended 31 December 2011, 2012 and 2013, approximately 3.5%, 6.2% and 5.3% of our revenue was derived respectively from sales of social product paper packages, including paper packages for medicine, wine and food. To diversify our product portfolio, we plan to further expand our social product paper packages business. Further details are set out in the section headed "Business — Business Strategies" in this prospectus.

However, social product paper packages market may differ significantly in market conditions and competitive landscape from the paper cigarette packages industry. We have relatively short operating history in the social product paper packages market and our production facilities are in general originally set up and catered for the production of paper cigarette packages, we therefore will have to allocate extra resources to adjust our production facilities set up for the further expansion of our non-cigarette paper package products at a larger scale. In addition, it may be difficult for our Group to expand our customer base to cover manufacturers of social product paper packages industries. Even if such manufacturers are willing to place orders with us, our profit margins for such products may be relatively lower if such orders are only placed in a small quantity.

There is no assurance that we will be successful in procuring new customers or obtaining new business in the social product paper packages at a larger scale in the future. Should we fail to implement our expansion plans in these non-cigarette package markets successfully, our future growth may be hindered. If we are unable to diversify our products, we may continue to rely heavily on the sale of paper cigarette packages and therefore any factors adversely affecting the cigarette industry resulting in a reduction in the cigarette package products, including tightened control measures on the PRC cigarette industry and consolidation within the cigarette industry, will have a material adverse effect on our Group's business.

Tightened legislative and regulatory control on the cigarette industry and the paper cigarette packages industry

Over the past few years, the PRC government had promulgated a series of legislative and regulatory control on the cigarette industry and the paper cigarette packages industry to curb the demand of cigarette for the concern of public health. Such tightened legislative and regulatory control includes:

- The Tobacco Monopoly Law of the PRC (《中華人民共和國煙草專賣法》), which came into effect on 1 January 1992 and amended on 28 December 2013, sets out various tobacco control measures in the PRC, which include the prohibition or restriction of smoking in public transportation vehicles and public areas and the banning of smoking by primary and secondary school students. Moreover, for the protection of health and to alert the public of the social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke, the PRC signed the WHO Framework Convention on Tobacco Control (《世界衛生組織煙草控制框架公約》) in 2003, which provides the framework for tobacco control measures. After the WHO Framework Convention on Tobacco Control has come into effect in the PRC in 2006, various tobacco control measures have been implemented in the PRC;

- The Provisions of Regulating the Packaging and Labeling of Tobacco in Domestic Sales (《關於規範境內銷售卷煙包裝標識的規定》), which came into effect in 2006, require, amongst others, the warning statement of "Smoking is harmful" ("吸煙有害健康") on cigarette packages and tobacco manufacturers are responsible for ensuring compliance with such provisions;

- The Implementing Rules of the Administration Regulations on the Hygiene in Public Places (《公共場所衛生管理條例實施細則》), which came into effect in 2011, (i) prohibit, amongst others, the placing of cigarette vending machines in public areas; and (ii) require the setting up of distinct warning and label for the prohibition of smoking in public areas; and

- The Notice Concerning Further Strengthening the Works on the Research and Development on Low-Tar Cigarette (《關於進一步加強低焦油卷煙研發工作有關要求的通知》) issued by STMA in November 2011 requires cigarette manufacturers to further increase their research and development on low-tar cigarette, and the STMA issued the Notice Concerning Adjustment to the Upper Limit of Cigarette Tar-level (《關於調整卷煙盒焦油最高限量的通知》) in April 2012 to disqualify and prohibit the sale and import of cigarettes which carry tar-level of over 11 milligrams per stick from 1 January 2013.

There is no assurance that the PRC government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, the cigarette consumption incentive and the size of the overall PRC cigarette market may further shrink, as a result of which the demand of our paper cigarette package may also be adversely affected.

Consolidation of cigarette manufacturers and brands

As a result of the efforts on industry restructuring and consolidation, the number of cigarette manufacturers in the PRC has decreased from nearly 200 in 2000 to 26 in 2010 and the number of cigarette brands has decreased from 1,183 in 2001 to 90 in 2013. Further details are set out in the section headed "Industry Overview — Overview of Cigarette Market in the PRC — Industry consolidation reduces the number of cigarette manufacturers and brands" in this prospectus.

There is no assurance that further restructuring and consolidation will not occur in the cigarette industry in the future. In the event that further restructuring or consolidation takes place among the cigarette manufacturers, the number of cigarette manufacturer customers and the cigarette brands in the PRC will further reduce, resulting in a more competitive paper cigarette package market. If we fail to retain existing cigarette manufacturer customers and/or to secure new cigarette manufacturers as our customers in response to the market consolidation driven by the government policies, we may lose our current market share.

As our Directors expect that our Group will continue to rely heavily on the sale of paper cigarette package products, if there is a significant shrink of the PRC cigarette market as a result of the implementation of the tightened legislative and regulatory control on the cigarette industry, consolidation of cigarette manufacturers and brands or any other reasons, our Group's business, financial condition and prospects may be materially and adversely affected.

The change of our product mix may have a material effect on our performance and we may not be able to maintain or improve our profit margins and profits in the future

During the Track Record Period, our overall gross profit margins were approximately 29.8%, 28.5% and 31.9% respectively. For the same period, our net profit margins were approximately 6.6%, 9.8% and 9.6%, respectively. The gross profit margins for our paper cigarette packages were higher than those for our social product paper packages during the Track Record Period. During the Track Record Period, gross profit margins of our social product paper packages was approximately 8.7%, 17.7% and 15.4%, respectively, compared to that of paper cigarette packages over the same period of approximately 30.6%, 29.2% and 32.8%. An analysis of our gross profit margins by product category is set out in the section headed "Financial Information — Year to year comparison — Gross profit and gross profit margin" in this prospectus.

There is no assurance that we will be able to continue to maintain or improve our current gross profit margins and level of profit attributable to our Shareholders in the future if the average selling prices of our products decrease, our production costs increase or as a result of any other factors which may affect our profit margins.

Our product mix may vary as a result of a change in our business strategy, in particular our strategy to enhance our product variety by further developing our social product paper packages. We may further modify our product mix in the future to cater to market conditions, customers' demands and other unforeseen factors. In the event that we vary our product mix to comprise a higher proportion of social product paper packages by increasing our production scale, or if our product mix changes and comprises a higher proportion of other products with low profit margins, our profitability may be adversely affected.

We rely on our major customers and there is no minimum purchase amount under our sales contracts with our customers

Our five largest customers, taken together, accounted for approximately 69.3%, 57.9% and 59.6% of our revenue, with our largest customer accounting for approximately 19.9%, 20.6% and 22.7% of our revenue for each of the years ended 31 December 2011, 2012 and 2013 respectively. Please refer to the section headed "Business — Our Customers — Five largest customers during the Track Record Period" in this prospectus for further details of our major customers.

We will continue to rely on our existing sales to these customers in the future, but there is no assurance that any of our major customers, including our largest customer, will continue to place orders with us in the future, or if so, at the same volume levels or at the same prices. In addition, the sales contracts we have entered into with our customers do not contain any minimum amount of paper cigarette packages to be purchased from us. The purchase amount for each of our products are set out in the relevant purchase orders issued by our customers to us from time to time. There is thus no assurance that our actual business volume would be the same as indicated in our sales contracts. In the event that our customers cease to place or reduce orders placed with our Group, our results of operations, financial condition and future prospects could be materially and adversely affected.

There is no assurance that cigarette manufacturers will not diversify their business to cover the manufacture of paper cigarettes packages. If, for any reason, any or all of our cigarette manufacturer customers decide to produce all or any substantial portion of their required paper cigarette packages in the future, such customers may cease to place orders with us, or substantially reduce the volume and/or product price related to orders placed with us, and our business operations, financial condition and future prospects could be materially and adversely affected.

We face increased market competition and exposure to different market risks arising from the adoption of the tendering system by PRC cigarette manufacturers

Pursuant to applicable PRC government and regulatory requirements, cigarette manufacturers in the PRC have since 2011 been required to select suppliers for packaging materials through a tendering system.

In order to secure a sales contract from our customers via the tendering system, we are required to submit tender documents, in competition with other tenderers, containing certain information including: (i) our information and background; (ii) unit prices of the products under the tender; (iii) equipment and machinery possessed by us; and (iv) information on our production and quality control process. Please refer to the section headed "Business — Our Customers — Tendering system" in this prospectus for further details on the tendering system adopted by our customers.

The tender invitations issued by the cigarette manufacturers usually specify a preferred price range for each of the paper cigarette packages, and we are required to set out the price of our products in the tender documents. If we win the tender, we are obliged to supply our products at the price designated by the relevant cigarette manufacturer under the sale and purchase contract (which is within the price range specified in the tender document but may not be the same as our tender price). Under the tendering system, we are not entitled to adjust the selling price of our products notwithstanding any increase in our operating costs and/or raw material costs for any reason. As a result, we have to bear risks associated with fluctuations in our operating costs and raw material costs. As we are unable to adjust the selling price of our products, any increase in our operating costs may adversely affect our results of operations and profitability.

The tendering system may also intensify price competition within the paper cigarette packages industry, as a result of which we may have to lower our profit margins to be more competitive in tendering for sales contracts from cigarette manufacturers in order to secure production orders from cigarette manufacturers. There is no assurance that we will be able to maintain or improve the gross profit margins of our products in the future. In the event that we are unable to maintain or improve our gross profit margin, our profitability and results of operations may be adversely affected.

We recorded net current liabilities as at 31 December 2011, 2012 and 2013

We maintained a certain level of indebtedness, of which a large proportion is secured by some of our properties and land use rights. As at 31 December 2011, 2012 and 2013, our Group's current bank and other borrowings amounted to RMB219.0 million, RMB253.5 million and RMB94.6 million, respectively, and our non-current bank and other borrowings amounted to RMB20.0 million, nil and RMB60.0 million, respectively. In addition, our total bank and other borrowings of RMB167.0 million as of 30 April 2014 (being the latest practicable date for the purpose of determining indebtedness), comprised of current borrowing of RMB137.0 million and long term borrowing of RMB30.0 million. Please refer to the section headed "Financial Information — Indebtedness" in this prospectus for further details of our Group's indebtedness position as at 30 April 2014.

Historically, our Group's net current liability position reflected our significant amount of short-term borrowings used to fund property, plant and equipment. The use of short-term borrowings to fund property, plant and equipment contributed to our Group's net current liability position in the past because short-term borrowings are classified as current liabilities while property, plant and equipment are classified as long-term assets on our combined balance sheet.

Excluding current assets and liabilities related to discontinued operations, our Group recorded net current liabilities of RMB61.6 million, RMB47.8 million and RMB78.2 million as at 31 December 2011, 2012 and 2013, respectively. As of 30 April 2014, we had net current assets of RMB17.8 million, as a result of the settlement of amounts due to related parties, the capitalisation of loans from a shareholder and a director and the extension of certain short-term borrowings into long-term borrowings. Although our Group is in the process of extending RMB30.0 million of short-term borrowings into long-term borrowings and our Group plans to continue to procure long-term bank facilities to meet our capital needs and to improve our working capital position in the future, there is no guarantee that it would be able to do so or at commercially acceptable terms. Accordingly, we cannot assure you that our Group will not record net current liabilities in the future or that our liquidity position will continue to improve.

For a detailed analysis on our net current assets and liabilities, please refer to the section headed "Financial Information — Liquidity and Capital Resources — Net current assets and liabilities" in this prospectus.

Our Group's ability to repay the principal and interest on its borrowings and to service our capital commitments and current and non-current liabilities depends substantially on the cash flow and results of operations of its operating subsidiaries, which depend in part upon the social, political, economic, legal and other risks described herein, most of which are beyond our control. There is no assurance that we will be able to achieve or maintain a net cash inflow from its operating activities in a sufficient amount or at all in the future. Any decline in our sales and any other matter adversely impacting the net cash inflow of our Group could significantly affect our cash flow position.

We may have difficulty in securing additional financing, and our working capital for the purpose of our business operations and expansions may be insufficient. There can be no assurance that our Group will always be able to raise the necessary funding to finance its current liabilities and capital commitments. Any of these events could have a material adverse impact on our business and results of operations.

We may be exposed to litigation risk arising from our historical non-compliant outsourcing of production work under sales contracts obtained via tenders

During the Track Record Period, we outsourced the production of certain paper cigarette packages out of purchase orders received from our customers to a few paper cigarette packages printing companies which were Independent Third Parties. Certain purchase orders outsourced by us involved customers with which we entered into sales contracts pursuant to the tendering process. During each of the years ended 31 December 2011, 2012 and 2013, revenue from subcontracting-related orders amounted to approximately RMB31.2 million, RMB9.5 million and RMB1.5 million, respectively, which represented about 7.3%, 2.2% and 0.3% of our revenue during the relevant year. We incurred subcontracting fees of approximately RMB20.7 million, RMB4.7 million and RMB0.6 million, respectively, which represented about 6.9%, 1.5% and 0.2% of our cost of sales during the relevant year. Please refer to the section headed "Business — Subcontracting" in this prospectus for details of our historical non-compliant outsourcing activities.

As advised by the PRC Special Counsel, certain of our subcontracting arrangements during the Track Record Period were not in compliance with PRC Tendering Laws and Regulations (《中華人民共和國招標投標法》), as a result of which (i) we may be liable to a fine of up to 1% of the amount of such outsourced work; (ii) any illegal gains arising from such outsourced work may be confiscated; and/or (iii) our business may be suspended. In extreme circumstances, the business license of Hubei Golden Three Gorges may be revoked by the relevant government authority. Please refer to the section headed "Business — Regulatory and Legal Matters — Non-compliance Incidents" in this prospectus.

In addition to non-compliance with the applicable PRC Tendering Laws and Regulations, we were also advised by the PRC Special Counsel that such subcontracting arrangements may have contravened the terms and conditions of the tendering documents of some of our paper cigarette packages customers, as a result of which we may be subject to contractual claims from our customers. The tendering documents of some of our paper cigarette packages customers prohibit the outsourcing of production of paper cigarette packages, and any contravention of such requirements may result in one or more of the following adverse consequences: (i) our Group may be required to replace the outsourced products at our own costs; (ii) in the event that the customer's production was affected by the replacement of such outsourced products, we may be liable for all the loss suffered by such customer; (iii) our status as an approved supplier of our customer may be affected and/or our contract with the relevant customer may be terminated; (iv) we may be liable for all the losses suffered by the customer if the outsourced products fall below the agreed quality standards; and/or (v) we may have to indemnify the customer against any and all loss, damage, costs and expenses incurred or suffered by it arising out of our outsourcing activities. In the event that any of the relevant customers had suffered or incurred any actual loss, and successfully prove such loss in court, the maximum damages payable by us will be determined by the PRC courts based on the actual loss incurred by such customer.

In the event that any penalties and/or other administrative sanctions are imposed by the relevant PRC governmental authorities, or that any of our customers being adversely affected by our historical non-compliant outsourcing activities initiates any contractual claims against us, our reputation, business, operation and financial position may be adversely affected.

We face credit risks as trade and note receivables from customers are subject to long collection cycles and may not be fully recoverable, which may adversely affect our cash flow, working capital, financial condition and results of operations

Our sales are generally made on credit. The credit terms for our paper cigarette packages customers are usually set out in the relevant tender invitations and later reflected in our sales contracts with such customers. Therefore, we are not able to determine the credit terms enjoyed by our paper cigarette packages customers. Trade and note receivables represented a significant portion of our total assets during the Track Record Period. As at 31 December 2011, 2012 and 2013, our trade and note receivables from Continuing Operations amounted to approximately RMB93.7 million, RMB179.9 million and RMB149.4 million, representing approximately 15.6%, 28.8% and 26.3% of the total assets of our Continuing Operations, respectively.

While we generally offer both of our paper cigarette packages customers and social product paper packages customers credit period of up to 90 days, such credit period generally commences upon our customers' confirmation of receipt of our invoices. Taking into account the general period of 30 days required for our delivery of goods to our customers' final confirmation of invoice receipt, our credit period can be prolonged to 90 to 120 days. For some of our major customers, our Group accepted settlement of trade receivables by bank acceptance notes primarily with 6-month maturity period, which extends the collection period from such customers to 180 days. As a result, the range of our average trade and note receivables turnover days during the Track Record Period exceeded 90 days, being approximately 102 days, 114 days and 121 days for each of the years ended 31 December 2011, 2012 and 2013, respectively. Turnover days for the year ended 31 December 2013 exceeded 120 days mainly due to prolonged cross-checking by our customers. For further details please refer to the sections headed "Business — Credit control policy" and "Financial Information — Certain Balance Sheet Items — Trade and note receivables" in this prospectus.

There are credit risks associated with our business. The amount of our trade and note receivables coupled with the long turnover time has had, and will likely continue to have, an adverse impact on our working capital needs. If we encounter delays or defaults in payment by our customers or are otherwise unable to recover our trade and note receivables, our cash flows from operations may be inadequate to meet our working capital requirements. Our financial condition and results of operations may be adversely affected.

Our sales contracts with our major customers are for a limited term

Pursuant to applicable PRC government and regulatory requirements, cigarette manufacturers in the PRC have since 2011 been required to select suppliers for paper cigarette packages through a tendering system. Please refer to the paragraph headed "We face increased market competition and exposure to different market risks arising from the adoption of the tendering system by PRC cigarette manufacturers" in this section and the section headed "Business — Our Customers — Tendering system" in this prospectus for further details on the tendering system.

If we are successful in a tendering process, we will enter into a sales contract with the relevant cigarette manufacturer for a specific term, usually with a term of one to two years. Such sales contract are not subject to automatic renewal and upon expiry of the existing term, our Group will be required to participate in the next tender for a new sales contract with the relevant cigarette manufacturer. There is no assurance that our Group will always be successful in securing sales contacts with our customers, or for all of the products we bid for. In the event that we fail to secure any sales contract in the tendering process, or where we can only secure sales contract in respect of some of our products, or where our customers reduce the amount of orders placed with our Group, our results of operations and financial condition may be adversely affected.

We rely on major suppliers and any delay or cessation in the supply of the raw materials from them without timely replacement may interrupt our operations

For each of the years ended 31 December 2011, 2012 and 2013, purchases from our largest supplier represented approximately 7.0%, 14.0% and 30.7% of our total purchases, and purchases from our five largest suppliers represented approximately 27.6%, 34.9% and 50.0% of our total purchases respectively. Please refer to the section headed "Business — Procurement" in this prospectus for further details of our major suppliers.

During the Track Record Period, we did not enter into long-term supply contracts with our suppliers. We generally select our suppliers via tender. We enter into framework supply contracts with our suppliers usually for a term of one year which set out basic terms for the supply of raw materials, supplemented by specific terms set out in purchase orders issued by us to our suppliers from time to time. Please refer to the section headed "Business — Procurement" in this prospectus for further details of our procurement policies.

Should any of our major suppliers delay or cease to supply raw materials to us and we are not able to procure necessary raw materials from alternative suppliers in a timely manner, our production may be interrupted. Further, some of our customers require our Group to procure raw materials from their designated suppliers and we may not be able to source raw materials from alternative suppliers. Any interruption in the supply of raw materials of the required quantities and/or quality may affect our production schedule, which may adversely affect our business reputation and relationship with our customers, and in turn adversely affect our financial condition and results of operations.

Any price fluctuations of raw materials, especially paper used in our production processes may increase our production costs

Raw materials required for our production are primarily paper and, to a lesser extent, ink and aluminum foil. Any sudden or significant increase in prices for the requisite raw materials for our production, especially paper, may adversely affect our Group's results of operations and profit margins. The major component of total cost of sales during the Track Record Period was raw materials, which comprised approximately 67.6%, 72.3% and 77.6% of total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively.

Paper is our main raw material. Our purchase of paper accounted for approximately 75.7%, 76.3% and 75.4% of our total cost of raw materials for the years ended 31 December 2011, 2012 and 2013, respectively. Our average procurement price of paper increased by 7.5% from 2011 to 2012 and decreased by 4.6% from 2012 to 2013. Key factors affecting the purchase price of paper include supply and demand in the market, the policies of the PRC government and market competition, which are beyond our Group's control. Details of our historical raw material cost fluctuations, including a price sensitivity analysis, are set out in the section headed "Financial Information — Principal Factors Affecting Our Results of Operations — Cost of Raw Materials" in this prospectus.

Price fluctuations of paper or other raw materials will affect our production costs, which will in turn affect our gross profits margin. We cannot assure you that we will be able to transfer any increase in cost to our customers. During the Track Record Period, we did not enter into any long-term supply contracts with our raw material suppliers and did not have any hedging facilities to minimise the risk of raw materials price fluctuation. As a result, our principal raw material costs will be subject to market fluctuations, and any increase in the prices of the raw materials required for the manufacture of our products may materially and adversely affect our profitability and results of operations.

There is no guarantee that the cost of raw materials will remain stable in the future, or that any price increase will not lead to unexpected and potentially significant increase in our Group's production costs. There is no assurance that we will be able to increase the price of our products without affecting our sales in the future. If we are unable to increase the prices of our products or services to set-off any increase in raw material costs, our Group's profitability and profit margins may be adversely affected.

Our Group may cease to be entitled to pay enterprise income tax at the reduced rate of 15%

Hubei Golden Three Gorges, our principal operating subsidiary, was recognised as a High Technology Enterprise (高新技術企業) by the relevant PRC government authorities and awarded the High Technology Enterprise Certificate in 2009 and 2012 respectively. Our current High Technology Enterprise Certificate will expire in 2015. Pursuant to our holding of such certificate, Hubei Golden Three Gorges will continue to be entitled to pay enterprise income tax at the reduced rate of 15% until the end of calendar year 2015. As a result of Hubei Golden Three Gorges' recognition as a High Technology Enterprise (高新技術企業), we enjoyed tax reduction of approximately RMB6.3 million, RMB3.2 million and RMB5.2 million during each of the three years ended 31 December 2011, 2012 and 2013, respectively.

The relevant PRC government authorities will take into account various factors in determining whether to award or renew any High Technology Enterprise Certificate, and there is no assurance that Hubei Golden Three Gorges' current High Technology Enterprise Certificate obtained in 2012 will be renewed upon its expiry in 2015. Should the relevant PRC government authorities refuse to renew Hubei

Golden Three Gorges' status as a High Technology Enterprise (高新技術企業) for any reason, Hubei Golden Three Gorges will cease to be entitled to such preferential tax treatment and will be required to pay enterprise income tax at the normal rate of 25%. Under such circumstances, the profitability and results of operation of our Group may be adversely affected.

We may need to invest additional resources in the design and production of equipment and systems in response to changes in market demand and government regulations

The continued improvement of our operations and production functions to satisfy customers' needs require our continued research and development on improving the functionality of our production facilities. We have also entered into collaboration agreements with several tertiary institutions in the PRC and have also carried out various technology research and development projects, including surface bronzing with snowflake oil technology and multi-colored fluorescent particle technology. Our research and development expenses amounted to approximately RMB14.8 million, RMB14.7 million and RMB16.9 million, respectively, during each of the three years ended 31 December 2011, 2012 and 2013, representing approximately 3.5%, 3.4% and 3.4% of our total revenue for the respective year. Please refer to the section headed "Business — Product Research and Development" in this prospectus for further details of our research and development.

There is no assurance that we will successfully develop or implement any of the research and development projects undertaken by us, or be able to complete such projects within their respective time and cost estimates. If we do not develop and introduce new products which adequately satisfy market demand and comply with government regulations in a timely manner, our competitive position, sales and gross margins may be materially and adversely affected. In the event that we fail to enhance our research and development capabilities to meet the ever-changing demands of customers, or if we fail to successfully adopt the latest technological developments, our capabilities may be surpassed by our competitors, which may adversely impact our operating results and future development.

We rely on a limited number of production bases

We have a limited number of production facilities which does not allow us to sufficiently diversify production risks. During the Track Record Period, our Group carried out paper cigarette packages manufacturing activities at our Yichang Factory and Dangyang Factory. As at the Latest Practicable Date, the Yichang Factory had a site area of about 57,050.4 sq.m., whereas the Dangyang Factory had a site area of about 43,873.2 sq.m. We carried out design and production of paper cigarette packages and social product paper packages mainly at the Yichang Factory during the Track Record Period. The Dangyang Factory was built to increase our production capacity in anticipation of potential business growth. Please refer to the section headed "Business — Production Facilities" in this prospectus for further details of our production sites.

Should the operations of our production bases be disrupted by any event, including but not limited to natural disasters, we may not be able to produce and deliver sufficient quantity of products to meet the demand of our customers, which in turn could have a material and adverse effect on our business, results of operations, financial condition, reputation and future prospects.

Our non-compliance with the social insurance scheme and the housing provident fund contribution regulations in the PRC may lead to imposition of penalties or other liabilities

Our Group is required under relevant PRC laws and regulations to contribute to the social insurance scheme (such as pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) for the benefit of our staff. However, we had not made social insurance contributions for certain temporary or part-time employees who had been employed only for short periods and left before our Group could make relevant contributions for them. As advised by our PRC Legal Advisers, we may be ordered to pay (i) all outstanding social insurance contributions for the relevant employees in the amount of RMB50,167; (ii) an overdue charge in the amount of RMB11,183; and (iii) a penalty up to RMB150,501, being three times of the outstanding social insurance contributions of Hubei Golden Three Gorges. Please refer to the section headed "Business — Regulatory and Legal Matters — Non-compliance Incidents" for further details.

Our Group is also required under relevant PRC laws and regulations to contribute to the housing provident fund scheme for the benefit of our staff. Prior to May 2013, our Group had not opened a housing provident fund account, nor had we contributed to the housing provident fund for our staff prior to 1 January 2013. As advised by our PRC Legal Advisers, we may be ordered to contribute the outstanding housing provident fund of approximately RMB532,745 within a prescribed period, failing which we may face enforcement action by the PRC courts. Please refer to the section headed "Business — Regulatory and Legal Matters — Non-compliance Incidents" for further details.

In the event that the said penalty is imposed on our Group, or other administrative sanction is ordered by the relevant PRC authorities against us, for our previous failure to make contributions to social insurance scheme and/or housing provident fund, such penalty or administrative sanction could adversely affect our financial condition and reputation.

Licences and permits are required for the production of cigarette packages in the PRC and any failure to renew such licence or permit or otherwise comply with relevant PRC laws and regulations may have a material and adverse effect on our business and operations

We are required to obtain and retain a printing operation licence (印刷經營許可證) for our paper cigarette packages printing business in the PRC. The printing operation licence is usually for a term of two years and the current printing operation permits held by Hubei Golden Three Gorges and Dangyang Liantong will expire on 13 March 2015 and 5 March 2015 respectively.

There is no assurance that the PRC government will renew our printing operation licences upon their expiry. The PRC government may promulgate new laws or regulations to regulate the paper cigarette packages printing industry in the PRC, where additional licences and permits may be required and we may have to devote further resources to comply with such laws and regulations. Should we fail to fully comply with the relevant PRC laws and regulations from time to time or renew our printing operation licence, we may be penalised or may not be able to continue our paper cigarette packages printing business in the PRC, which may have a material and adverse effect on our business, results of operations, financial condition and future prospects.

We do not possess the construction planning permits and/or building ownership certificates of certain properties

We occupied two buildings with an aggregate floor area of approximately 259.89 sq.m., for which we had not obtained the construction planning permits (《建設工程規劃許可證》) and the building ownership certificates. Such buildings were used as boiler room and store room. We have submitted an application to apply for the construction planning permits and will, as soon as the construction planning permits are issued, apply for the building ownership certificates of the above buildings. As advised by our PRC Legal Advisers, buildings without a valid building ownership certificates cannot be sold or mortgaged and is subject to penalty and order to ratify or demolish. Please refer to the section headed "Business — Properties — Buildings without building ownership certificates" for further details.

There is no assurance that the construction planning permits or the building ownership certificates will be granted by the competent authorities. If we are forced to relocate or are ordered to pay any penalty due to the lack of construction planning permits or the building ownership certificates, our business operations may be affected and we may need to incur time and cost for relocation.

Our business development depends on certain key management team members and the loss of their service without proper replacement may have an adverse effect on our operations

Our business development is dependent on certain key management team members, in particular Mr. Yang, our Controlling Shareholder, Chairman, executive Director and the founder of our Group and Mr. Feng, our chief executive officer and executive Director. Mr. Yang has extensive experience and expertise in both the paper cigarette packages industry and the general PRC cigarettes industry, and has established extensive relationships with cigarette manufacturers in the PRC. Mr. Feng has more than 13 years of experience in the paper cigarette packages trading field. Our success will, to a certain extent, depend on whether we can continue to attract and retain our key management team members. If we lose the service of any of our key management team members, or if we fail to replace any loss of such key management team members with alternative personnel with similar expertise and experience, our business, results of operations, financial condition and future prospects could be adversely affected.

Any infringement of our intellectual property rights or any infringement by us of third party intellectual property rights may adversely affect our reputation and profitability

Our core production technology and critical production processes are crucial to our Group's continued success and development. We are the registered owner of 21 patents, and are applying for three patents. If our core production technology and licence rights are infringed by way of unauthorized copying, use or imitation, our sales and reputation may be seriously affected and we may need to expend substantial resources on litigation and other legal processes to protect our intellectual property, which may in turn adversely affect the operations and profitability of our Group.

Conversely, there is also a risk that we may infringe third party intellectual property rights, thereby incurring costs in either defending or settling any related intellectual property infringement allegations or disputes. In the event that we are subject to any infringement claims, we may be required to expend substantial funds to develop non-infringing alternatives or to obtain required licences. There is no assurance that our Group will succeed in developing such alternatives or in obtaining such licences on reasonable terms, or at all, and any failure to do so may disrupt our Group's manufacturing processes, damage our reputation and affect our profitability.

Any labour shortages, increased labour costs, strikes, labour unrests or other factors affecting our labour force may have a material adverse effect on our reputation, business, results of operations and financial condition

To support the growth of our business, we will need to increase our workforce of experienced management, skilled labour and other employees to implement our expansion plans and enhance the operation efficiency of our existing facilities. We incurred staff cost and benefits from Continuing Operations of approximately RMB37.4 million, RMB34.0 million and RMB40.5 million, respectively, for each of the three financial years ended 31 December 2011, 2012 and 2013.

In the event of labour shortages, we may face difficulties in recruiting or retaining employees or may be subject to increasing labour costs. We require skilled labour of various levels of expertise and experience. Given the recent economic growth in the PRC, competition for qualified personnel is substantial and labour costs have been increasing generally, and we cannot assure you that we can retain and attract sufficient qualified employees and contract workers on commercially reasonable terms, or at all. Any failure to attract qualified personnel at reasonable cost and in a timely manner could reduce our competitive advantages, undermine our ability to expand and our growth in revenue and profits.

In addition, certain companies operating in the PRC have experienced labour unrest or strikes in recent years. We cannot assure you that labour disputes, work stoppages or strikes will not arise in the future. Increase in our labour costs and future disputes with our workers could adversely affect our business, results of operations and financial condition.

Potential liability in connection with our operation and we have limited insurance coverage

Our business operations, particularly our production activities, involve inherent risks and occupational hazards which cannot be completely eradicated through preventive efforts. Industrial accidents, whether due to the malfunction of equipment and machinery or other reasons, may occur at our production facilities from time to time. In such event, we may be liable for loss of life and property, medical expenses, medical leave payments as well as fines and penalties for violation of applicable PRC laws and regulations. In addition, we may also experience interruptions in our operations and may be required to change the manner in which we operate as a result of government investigations or the implementation of safety measures as a result of such industrial accidents.

While we have maintained social insurance for our employees as required by applicable PRC rules and regulations and integrated insurance for some of our equipment and machinery, any uninsured loss or damage to property, litigation or business disruption may cause our Group to incur substantial costs, which could materially and adversely affect our financial condition and operation results. The occurrence of certain events, including earthquake, fire, severe weather, war, floods, power shortages and the consequent damages and/or disruptions resulting from them may not be adequately covered, or at all, by our Group's existing insurance policies. If we incur substantial liabilities not covered by our Group's existing insurance policies, or if our business operations are interrupted for a substantial period of time, we may incur costs and losses that may materially and adversely affect our Group's business, financial condition, results of operations and business prospects.

Pursuant to the PRC Product Quality Law (《中華人民共和國產品質量法》) and the PRC Law on the Protection of the Rights and Interest of Consumers (《中華人民共和國消費者權益保護法》), our Group may be subject to product liability claims in the event that any of our products is alleged to have caused any harm to end users. Our Group does not maintain any insurance for such product liability claims. We did not receive any claims regarding product liability during the Track Record Period. However, in the event of any consumer claims against our Group for any product liability and our Group is adjudged to be liable for losses under such claims, our results of operations and reputation may be adversely affected.

Failure to maintain an effective quality control system may have an adverse effect on our operations

The quality of our products is critical to the success of our business. We maintain strict and effective quality control system and have a full set of system, procedure, process and standard for quality management. We integrate the original quality management system, environmental management system and occupational health safety system into one management system. Any material failure or deterioration of our quality control system could adversely affect our reputation, business, and financial condition and growth prospects.

We rely on external logistics service providers to transport our products to our customers

Our production base is located in Hubei, the PRC. According to the sales contracts entered into between our Group and our major customers, we are responsible, at our own costs and expenses, for delivering our products to locations designated by them. We do not have our own transportation vehicles and we engage external logistics service providers to provide transportation services to us. In the event that those external logistics service providers refuse to provide transportation services to us, or only agree to provide transportation services at a higher price, our business, profit margins and results of operations may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Projected slow down of growth of the cigarette and the paper cigarette packages industries will materially affect our revenue and profit

We mainly produce and sell our products to the cigarette manufacturing industry and any material deterioration of the market condition for such industry may have adverse effect on our business and financial results. During the Track Record Period, our sales of paper cigarette packages amounted to approximately RMB411.5 million, RMB411.4 million and RMB469.5 million respectively, representing approximately 96.5%, 93.8% and 94.7% of our total revenue for each of the years ended 31 December 2011, 2012 and 2013 respectively.

As detailed in the section headed "Industry Overview" in this prospectus, Euromonitor projected the growth of the cigarette and the paper cigarette packages industries to slow down in the coming years. Year-on-year growth rate of retail sales volume of cigarettes in the PRC is expected to slow down to approximately 1.5% by 2017 and year-on-year growth rate of the manufacturer sales value of paper cigarette packages in the PRC is expected to slow down to approximately 1.2% by 2017.

Should there be any material deterioration in the cigarette or paper cigarette packages market due to, amongst others, any economic factor and/or governmental policies, and we are not able to procure sufficient businesses from other categories of products in time, our business, results of operations, financial condition and future prospects may be adversely affected. If we fail to diversify our revenue stream to products other than paper cigarette packages and the growth of the industries slows down as projected or more severely than projected, our results of operations, financial condition and future prospects could be adversely affected.

Our sales are subject to seasonal fluctuations

Our products are principally used in the cigarette industry and hence our production and sales largely correspond to and fluctuates with the production and sales of the cigarette industry. The peak seasons of the paper cigarette packages industry in the PRC are around the first and the fourth quarters of the year, as cigarettes are often used as gifts during the Chinese New Year and the Mid-Autumn Festival.

During slack seasons, our Group may not be able to obtain sufficient amount of production orders from our customers to fully utilise our production capacity, whereupon our labor, equipment and machinery may experience idle periods instead of generating revenue for our Group. On the other hand, during peak seasons, we may not have sufficient production capacity to meet all of our customers' purchase orders and demands, which in turn may limit our revenue or even adversely affect our business relationships with our customers. As a result, our business and results of operations may be adversely affected.

Our business is subject to intense competition

Despite the existence of certain industry entry barriers as detailed in the sections headed "Industry Overview" and "Business — Competition" in this prospectus, our Directors are of the view that the paper cigarette packages industry in the PRC is competitive and fragmented with both large-scaled and small-scaled competitors.

Should these competitors equip themselves with, among other things, industry knowledge, technical know-how, equipment and machinery or product design capability that are comparable to or better than those of our Group, we might not be able to maintain our competitive edge and our business, results of operations, financial condition and future prospects might be adversely affected.

Promotion of public health awareness may adversely affect the demand of cigarette and therefore our sales of paper cigarette package products

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarettes, which in turn would affect our sales of paper cigarette packages. Given that cigarettes are generally considered hazardous to health, there is no assurance that consumers will not, in the future, change their habits and reduce consumption of cigarettes. As most of our revenue and profits were contributed from the production and sales of paper cigarette packages during the Track Record Period, in the event that the consumer markets for cigarettes shrink significantly and we are unable to promptly shift our product mix to maintain our sales, our business, results of operations, financial condition and future prospects might be adversely affected.

We may incur additional costs for compliance with the environmental protection laws

Our Directors are aware of the importance of environmental protection and hence, our Group pays close attention to ensure that its operations comply with the environmental protection laws and regulations in the PRC. We incurred environmental cost of approximately RMB354,000, RMB535,000 and RMB589,000, respectively, for each of the three financial years ended 31 December 2011, 2012 and 2013.

The PRC government, however, may take additional steps towards more rigorous enforcement of applicable laws and adopt more stringent environmental standards. Violations of these laws and regulations may lead to, amongst others:

- fees for the discharge of waste substances;
- levy of fines and payments for causing serious environmental damages; and
- allowing the PRC government, at its discretion, to close down any facilities that fail to comply with government orders and require the operator of such facilities to rectify or stop operations.

The recent anti-extravagant measures implemented by the government in the PRC may discourage consumption of cigarette-related products, and may adversely affect our business performance and financial condition

In December 2012, the PRC government introduced the Eight-Point Guidelines (《中央政治局會議改進工作作風的八條規定》) which aim at, among others, simplifying the hospitality arrangements, reducing the number of social events, implementing strict-saving policies and improving the work styles of officials. With the introduction of the Eight-Point Guidelines which discourage officials from extravagant spending, the cigarette industry and the cigarette package industry might be affected by this clampdown on the gift-giving culture.

We cannot assure you that the implementation of such measures by the PRC government would not have an impact on the consumption pattern and purchasing preference of the officials and the public in general. If they reduce their consumption on cigarette-related products, our business performance and financial condition may be adversely affected.

Recession in the global economy may affect the business of our customers, which will in turn cause adverse impact on our results of operation

Our customers mainly comprise cigarette manufacturers. To the best knowledge of our Directors, those cigarette manufacturers sell most of their cigarette products in the PRC. Therefore, demand for cigarette products from the local market will affect their business. The continuing recession in the global economy in recent years may reduce the demand for cigarette products in the local market and affect the business of our customers, which may in turn result in a reduction in their purchase orders for paper cigarette packages placed with our Group. Under such circumstances, our business and results of operation may be adversely affected.

RISK FACTORS RELATING TO THE PRC

Changes in the economic, political and social conditions and government policies in China may have an adverse effect on our business

During the Track Record Period, our operations were primarily conducted in China and all of our revenue was derived from the China market. Our customers were based in the PRC and, to the best of knowledge of our Directors, our customers sell most of their products in the PRC. As a result, we are susceptible to changes in the economic, political and social conditions in China. The economy of China differs from the economies of most developed countries in many respects, including degree of government involvement, degree of development, growth rate, control of foreign exchange and import and allocation of resources.

In recent years, the PRC government has implemented measures emphasising market forces for economic reform. However, the PRC government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government. Changes in the economic, political and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) and restrictive financial measures, could have an adverse effect on the overall economic growth of China, which could subsequently hinder our business, growth strategies, financial condition and results of operations.

Failure to comply with SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents, particularly SAFE Circular No. 75, may subject our PRC resident Shareholders or the PRC subsidiaries to liabilities or penalties, limit the ability of our Group to inject capital into our PRC subsidiaries or limit the ability of our PRC subsidiaries to distribute profits to our Company

SAFE issued a public notice in October 2005, namely "Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies" (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("SAFE Circular No. 75"), pursuant to which PRC residents are required to register with the local SAFE branch before establishing or controlling any company outside of the PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an "offshore special purpose company". According to SAFE Circular No. 75, PRC residents that are shareholders of offshore special purpose companies established before 1 November 2005 are required to register with the local SAFE branch before 31 March 2006. In addition, any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration with respect to that offshore special purpose company in connection with any increase or decrease of capital, transfer of shares, merger, division, equity investment, creation of any security interest over any assets located in the PRC or any other material change in share capital.

According to the PRC Legal Advisers, Mr. Yang, our Controlling Shareholder, Chairman and executive Director, is not subject to the registration process under the SAFE Circular No. 75 and Mr. Feng, our chief executive officer and executive Director who indirectly holds approximately 5.21% of our issued share capital immediately after completion of the Share Offer and the Capitalisation Issue has completed the necessary registration process under the relevant PRC laws. However, there is no assurance that the PRC government will not have a different interpretation of SAFE Circular No. 75 in the future. Moreover, we may not be fully informed of the identities of all the future Shareholders who are PRC residents. Our Group does not have control over the Shareholders and cannot assure you that all of the PRC resident Shareholders will comply with SAFE Circular No. 75. Failure of the PRC resident Shareholders to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular No. 75 may subject such Shareholders and/or the PRC subsidiaries of our Company to fines and legal sanctions. Failure to comply with SAFE Circular No. 75 may also limit the ability of our Group to contribute additional capital to its PRC subsidiaries, limit the ability of the PRC subsidiaries to distribute dividends to our Company or otherwise materially and adversely affect the business of our Group.

Uncertainties with respect to the PRC legal system and difficulties in seeking enforcement of foreign judgements or arbitration awards in the PRC

Our business is primarily conducted in the PRC and can be significantly influenced by the PRC legal system. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed because of the limited volume of published cases and their non-binding nature, and as a result of other factors (including the influence political considerations can have on legal matters), the implementation of PRC laws and regulations involves a degree of uncertainty. We cannot predict the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws, and the effect it may have on us. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis, or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Moreover, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Furthermore, substantially all of our assets are located in the PRC, and some of our Directors and senior management reside in the PRC. However, the PRC has not entered into many treaties or arrangements providing for the reciprocal recognition and enforcement of judgments in most jurisdictions. Thus, recognition and enforcement of foreign judgments and arbitration awards may be difficult or impossible in the PRC.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our income and gains on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes

Under the Enterprise Income Tax Law and its implementation regulations, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors which are "non-resident enterprises" that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business to the extent such dividends have their source within the PRC unless there is an applicable tax treaty between the PRC and the jurisdiction in which an overseas holder resides which reduces or exempts the relevant tax. According to the Arrangements between the Mainland of China and the Hong

Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the profit derived by a foreign investor residing in Hong Kong from its wholly owned PRC enterprise is subject to a tax rate of 5%. In addition, any gain realised on the transfer of shares by such investors is subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Since it is uncertain whether our Company will be considered a PRC "resident enterprise", dividends payable to the foreign investors of our Company with respect to the Shares, or the gain the foreign investors of our Company may realise from the transfer of the Shares, may be treated as income derived from sources within the PRC and be subject to the PRC tax.

Fluctuations in the value of the RMB could have an adverse effect on your investment

Operating revenues and expenses of our Group have been and are expected to continue to be primarily denominated in RMB and our Group is exposed to the risks associated with the fluctuation in the currency exchange rate of RMB. Should RMB appreciate against other currencies, the value of the proceeds from the Share Offer and any future financings, which are to be converted from HK Dollar or other currencies into RMB, would be reduced and might accordingly hinder the business development of our Group due to the lessened amount of funds raised. On the other hand, in the event of the devaluation of RMB, the dividend payments of our Company, which are to be paid in HK Dollar after the conversion of the distributable profit denominated in RMB, would be reduced. Furthermore, the devaluation of RMB would also increase the costs of our Group to import overseas equipment and machinery for the enhancement of its operations. Hence, substantial fluctuation in the currency exchange rate of RMB may have a material adverse effect on the business, operations and financial position of our Group and the value of your investment in the Shares.

RMB is not freely convertible and reliance on dividend payments from PRC subsidiaries

RMB is not a freely convertible currency, where the conversion of RMB into any other currency is strictly regulated by the PRC government. In general, foreign investment enterprises are permitted to convert RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. On the other hand, control over conversion of RMB to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations.

Our Company is a holding company incorporated in the Cayman Islands and operates its core business through its subsidiaries in China. Therefore, the availability of funds to us to pay dividends to our Shareholders and to service our indebtedness depends upon dividends received from these subsidiaries. As entities established in the PRC, the PRC subsidiaries of our Company are subject to limitations with respect to dividend payments. Should the PRC subsidiaries be unable to pay dividends due to government policies or regulations, our Company may not be able to pay dividends to the Shareholders and service our indebtedness, which may have a material adverse effect on our business, results of operations and financial condition.

Natural disasters, public health and public security hazards in the PRC may severely disrupt our Group's business and operations, and may have a material and adverse effect on its business, financial condition and results of operations

Our suppliers, production premises and customers are primarily located in the PRC. The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, on its overall GDP growth. As all of our Group's revenue is derived from its operations in the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP may materially and adversely affect the financial condition, results of operations and future growth of our Group.

In addition, if employees are affected by a severe communicable disease, our Group may be required to institute measures to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our Group's general suppliers and other service providers.

Moreover, the PRC has experienced natural disasters like earthquakes, floods, landslides and droughts in the past few years, resulting in deaths of people, significant economic losses and significant and extensive damage to factories, power lines, homes, automobiles, crops, and other properties, as well as blackouts, transportation and communications disruptions and other losses in the affected areas.

Any future natural disasters, public health and public security hazards may, among other things, materially and adversely affect or disrupt our operations. Furthermore, such natural disasters, public health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect the business, results of operations and prospects of our Group.

RISK FACTORS RELATING TO THE SHARE OFFER AND THE SHARES

We may experience a material adverse change in our financial results for the year ending 31 December 2014 which is mainly contributable to the expenses incurred in relation to the Listing

We estimate to incur legal, professional and other fees (including underwriting commission) with respect to the Listing in the total amount of HK$38.8 million (approximately RMB30.8 million). In accordance with HKFRS, listing related expenses directly attributable to the Share Offer are recorded as prepaid expenses, which will be deducted from equity upon Listing with the remaining listing related expenses charged through income statements.

For the years ended 31 December 2011, 2012 and 2013, our Group incurred listing expenses of nil, nil and RMB6.7 million, respectively, of which RMB5.8 million was fully charged to the income statement for the year ended 31 December 2013 and RMB0.9 million will be deducted from equity upon Listing. The remaining estimated listing expenses of RMB24.1 million is expected to incur in 2014, of which RMB16.4 million is expected to be charged to our income statement for the year ended 31 December 2014 and RMB7.7 million is expected to be deducted from equity upon Listing. Expenses in relation to the Listing are non-recurring in nature.

Prospective investors should note that the financial performance of our Group for the year ending 31 December 2014 would be adversely affected by the estimated listing expenses mentioned above which are non-recurring in nature.

There has been no prior public market for our Shares

Prior to the Share Offer, there was no public market for our Shares. While we have applied to list and deal in our Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. If an active and liquid trading market does not develop, you may have difficulty in selling any of our Shares that you purchase. The Offer Price of our Shares will be determined through negotiations between our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), and it may not necessarily be indicative of the market price of our Shares after Listing. An investor who purchases Shares in the Share Offer may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

The market price and trading volume of our Shares may be volatile

The market price and trading volume of our Shares may be volatile. Factors such as the following may significantly affect the trading volume and the price of our Shares:

- changes in global and local economic conditions;
- changes in foreign currency exchange rates;
- fluctuations in our operating results;
- announcements of new investments, strategic alliances and/or acquisitions;
- modifications to the financial estimates of our Group or its competitors by securities analysts;
- addition or departure of our Directors and senior management of our Group;
- new policies in the cigarette or paper cigarette packages industry in the PRC; and
- general market conditions or other developments affecting us or our industry.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Future sales of our Shares or issuance of new Shares by us in the public market may materially and adversely affect the market price of our Shares and shareholding of the Shareholders

Future sales of a substantial number of our Shares, or the perceived sales, could negatively impact the market price of our Shares and our ability to raise funds in the future at a time and price that we deem appropriate. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings, details of which are set out in the section headed "Underwriting" in this prospectus. There is no assurance that any of them will not dispose of any Shares they now own or may own in the future, following the expiration of the relevant lock-up periods or any other Shareholders will not dispose of any Shares they now own or may own in the future following the Share Offer. Future sales or perceived sales of a substantial number of our Shares in the public market may materially and adversely affect the market price of our Shares.

In addition, our Group may raise additional funds in the future to finance expansion of the existing business or develop new businesses. If the additional funds are not done through issuing new equity securities to the existing Shareholders on a pro-rata basis, the ownership percentages of the existing Shareholders may be reduced, and in addition, the newly issued securities may confer rights, preferences or privileges superior to those of the Offer Shares.

Historic dividends are not indicative of future dividends

Historically, we declared dividends of approximately RMB23.6 million, RMB37.9 million and RMB81.2 million for the years ended 31 December 2011, 2012 and 2013 respectively. Future dividends on our Shares will be declared by, and are subject to the sole and absolute discretion of the Board. We do not have a fixed dividend policy. The payment and the amount of any dividends will depend on our earnings, financial condition, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. There is no assurance that our Company will declare or pay dividends in the future, and the dividends declared and paid in the past should not be used as a reference or basis upon which future dividends will be determined. Therefore, historical dividends should not be treated as indicative of our future dividend payments or our future dividend policy.

Undue reliance on facts and statistics in this prospectus

Certain facts and statistics in this prospectus that do not relate directly to our Group's operations, including those relating to the PRC, its economy, the cigarette and paper cigarette packages industries, have been derived or extracted from various publications of governmental agencies and Independent Third Parties. However, the facts and statistics in this prospectus may not be reliable in terms of their completeness, accuracy and fairness given such information has not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters or any of their respective directors, officers, affiliates, advisers or representatives, or any other parties involved in the Share Offer, and such information may not be consistent with other publicly available information. Our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters or any of their respective directors, officers, affiliates, advisors or representatives, or any other parties involved in the Share Offer make no representation as to the completeness or accuracy of those information and there is no assurance that the such information contained in this prospectus in prepared to the same standard or level of accuracy and comparable with similar kind of information available in other publications or jurisdictions. Therefore, the facts and statistics in this prospectus shall not be unduly relied upon.

Investors should not rely on any information in the press articles or other media regarding our Group and the Share Offer not contained in this prospectus

There might be certain press coverage in certain news publications regarding our Group and the Share Offer which included certain financial information, financial projections and other information about our Group that do not appear in this prospectus. Our Group wishes to emphasise to potential investors that our Group does not accept any responsibility for the accuracy or completeness of any information disseminated in the articles or media and that such information was not sourced from or authorised by our Group. Our Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of such information is inconsistent with, or conflicts with, the information contained in this prospectus, our Group disclaims it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, our Company must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Given that our business and operation are primarily located, managed and conducted in the PRC and, none of our executive Directors are ordinarily resident in Hong Kong, our Company does not and will not, in the foreseeable future, have a management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for a waiver from compliance with the requirements under Rule 8.12 of the Listing Rules. The Stock Exchange has granted the requested waiver to our Company from strict compliance with the requirements under Rule 8.12 of the Listing Rules on condition that our Company would adopt the following arrangements to maintain regular communication with the Stock Exchange:

(a) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives appointed are Mr. Feng, our executive Director and Mr. Wu Hung Wai, the company secretary who is ordinarily resident in Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong upon reasonable short notice and will be readily contactable by telephone, facsimile or email. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) both authorised representatives have means to contact all members of the Board (including our non-executive Director and independent non-executive Directors) and of the senior management team promptly at all times as and when the Stock Exchange wishes to contact them or any of them for any matters. To enhance the communication between the Stock Exchange, the authorised representatives and our Directors, our Company will implement a number of policies whereby (i) each executive Director, non-executive Director and independent non-executive Director shall provide his mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the authorised representatives; (ii) in the event that an executive Director, non-executive Director or independent non-executive Director expects to travel and be out of office, he shall provide the phone number of the place of his accommodation to the authorised representatives; and (iii) all our Directors and authorised representatives will provide their respective mobile phone numbers, residential phone numbers, office phone numbers, fax numbers (if available) and email addresses (if available) to the Stock Exchange;

(c) if the circumstances require, meetings of the Board can be convened and held in such manner as permitted under the articles of association of our Company at short notice to discuss and address any issue with which the Stock Exchange is concerned in a timely manner;

(d) a compliance adviser has been appointed by our Company pursuant to Rule 3A.19 of the Listing Rules to provide our Company with professional advice on continuing obligations under the Listing Rules, and to act at all times, in addition to the two authorised representatives of our Company, as our Company's principal channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company publishes its annual report in respect of its first full financial year commencing after the Listing Date;

(e) meetings between the Stock Exchange and our Directors can be arranged through the authorised representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly of any change in the authorised representatives or the compliance adviser; and

(f) all our Directors have confirmed that they possess valid travel documents to travel freely to Hong Kong and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice.

The Company has received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the above arrangements being put in place.

WAIVERS FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has certain transactions with connected persons that are expected to continue after Listing, which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from the strict compliance with the relevant requirements in respect of such non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. The details of such waivers is set out in the section headed "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer. Details of the terms of the Share Offer are described in the section headed "Structure and Conditions of the Share Offer" in this prospectus and in the related Application Forms.

The Share Offer is sponsored by the Sole Sponsor and managed by the Joint Bookrunners. The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is expected to be fully underwritten by the Placing Underwriters pursuant to the Public Offer Underwriting Agreement and the Placing Underwriting Agreement, respectively. For further information relating to the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFERS AND SALE OF SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit an offering of the Offer Shares or the general distribution of this prospectus and the related Application Forms to the public. Accordingly, this prospectus or the related Application Forms may not be used for the purposes of, and does not (and is not intended to) constitute an offer or invitation in any jurisdiction outside Hong Kong or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC or the United States, except in compliance with the relevant laws and regulations of each of such jurisdictions.

No action has been taken to register or qualify the Offer Shares or the Share Offer, or otherwise to permit a public offering of the Offer Shares, in any jurisdiction outside Hong Kong. The distribution of this prospectus and the related Application Forms in jurisdictions outside Hong Kong may be restricted by law and therefore persons into whose possession this prospectus or any of the related Application Forms comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the applicable securities laws.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his or her or its acquisition of the Offer Shares to have confirmed, that he or she or it is aware of the restrictions on offer of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares, any Shares which may be issued pursuant to the Capitalisation Issue and the exercise of any options that may be granted under the Share Option Scheme.

Except as disclosed in this prospectus, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding, disposal of or dealing in the Shares under the laws of the place of your operations, domicile, residence, citizenship or incorporation.

None of our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of or dealing in the Offer Shares.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Share Offer will be registered on our Company's Hong Kong register of members to be maintained in Hong Kong.

Dealings in the Shares registered in our Company's Hong Kong register of members to be maintained in Hong Kong will be subject to Hong Kong stamp duty.

Dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on our Company's Hong Kong register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

The application procedure for the Public Offer Shares is set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including details of its conditions, are set out in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

REGISTRATION OF TRANSFER OF SHARES

The principal register of members of our Company will be maintained in the Cayman Islands by Appleby Trust (Cayman) Ltd. and a branch register of members of our Company will be maintained in Hong Kong by Union Registrars Limited. Unless our Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB have been translated, for illustration purposes only, into Hong Kong dollars (or *vice versa*) in this prospectus at the following rates:

RMB0.7933: HK$1.00

No representation is made that any amounts in RMB or HK$ can be or could have been at the relevant dates converted at the above rates or any other rates, or at all.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Yang Yoong An (楊詠安)	112 Tanjong Rhu Road #14-02 Singapore 436929	Singaporean
Mr. Feng Bin (豐斌)	Flat 208, Block 1, Yangtze River Ruijing 120 Yanjiang Road Yichang City PRC	Chinese
Non-executive Director		
Mr. Yang Fan (楊帆)	112 Tanjong Rhu Road #14-02 Singapore 436929	Singaporean
Independent non-executive Directors		
Mr. Gong Jinjun (龔進軍)	Flat 1202, Block 2, Xiang Xie Ming Yuan 15 Nong Yuan Road Futian District Shenzhen City PRC	Chinese
Mr. Wang Ping (王平)	Flat B, 22/F, Tower 1 Marbella 23 On Chun Street Ma On Shan New Territories Hong Kong	Chinese
Mr. Zeng Shiquan (曾石泉)	Flat 5D, Block 6 Shuixie Huadu Shenzhen City PRC	Chinese

Please refer to the section headed "Directors, Senior Management and Staff" in this prospectus for further details.

PARTIES INVOLVED

Sole Sponsor	RaffAello Capital Limited Room 2002, 20/F Tower Two, Lippo Centre 89 Queensway Hong Kong
Joint Bookrunners and Joint Lead Managers	First Shanghai Securities Limited 19th Floor, Wing On House 71 Des Voeux Road Central Hong Kong RaffAello Securities (HK) Limited Room 2002, 20/F Tower Two, Lippo Centre 89 Queensway Hong Kong
Legal advisers to the Company	*As to Hong Kong law:* Loong & Yeung Suites 2001–2006, 20/F Jardine House 1 Connaught Place Central Hong Kong *As to Cayman Islands law:* Appleby 2206–19 Jardine House 1 Connaught Place Central Hong Kong *As to PRC law:* Jingtian & Gongcheng 34th Floor, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing 100025 PRC Dacheng Law Offices 5/F, 12/F, 15/F, Guohua Plaza 3 Dongzhimennan Avenue Dongcheng District Beijing 100007 PRC

Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* Norton Rose Fulbright Hong Kong 38/F Jardine House 1 Connaught Place Central Hong Kong *As to PRC law:* Grandall Law Firm (Shanghai) 45–46/F Nanzheng Building 580 West Nanjing Road Shanghai, 200041 PRC
Auditors and reporting accountants	HLB Hodgson Impey Cheng Limited *Certified Public Accountants* 31/F Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Property valuer	Castores Magi (Hong Kong) Limited *Registered Professional Surveyors (General Practice)* Suite 211, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Receiving bank	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
Compliance Adviser	RaffAello Capital Limited Room 2002, 20/F Tower Two, Lippo Centre 89 Queensway Hong Kong

Registered office	Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Head office in the PRC	No. 6 Qingdao Road Dongshan Economic Developing District Yichang, Hubei
Principal place of business in Hong Kong	Suite 3212 32nd Floor Tower One, Times Square No. 1 Matheson Street Causeway Bay Hong Kong
Company secretary	Mr. Wu Hung Wai (吳鴻偉) *(HKICPA)* Flat G, 9/F, Block 5 Cheerful Garden 23 Siu Sai Wan Road Chai Wan Hong Kong
Authorised representatives	Mr. Feng Bin (豐斌) Flat 208, Block 1, Yangtze River Ruijing 120 Yanjiang Road Yichang City PRC
	Mr. Wu Hung Wai (吳鴻偉) Flat G, 9/F, Block 5 Cheerful Garden 23 Siu Sai Wan Road Chai Wan Hong Kong
Audit committee	Mr. Wang Ping (王平) *(Chairman)* Mr. Yang Fan (楊帆) Mr. Zeng Shiquan (曾石泉)
Remuneration committee	Mr. Gong Jinjun (龔進軍) *(Chairman)* Mr. Feng Bin (豐斌) Mr. Wang Ping (王平)

Nomination committee	Mr. Yang Yoong An (楊詠安) *(Chairman)* Mr. Zeng Shiquan (曾石泉) Mr. Gong Jinjun (龔進軍)
Principal banks	China Minsheng Bank Yichang Branch No. 22 Yun Ji Road Xi Ling District Yichang, Hubei China Merchants Bank Yichang Branch No. 18-3 Xi Ling Yi Road Xi Ling District Yichang, Hubei Hubei Bank Corporation Yichang Branch No. 109 Zhen Zhu Road Xi Ling District Yichang, Hubei
Principal share registrar and transfer office	Appleby Trust (Cayman) Ltd. Clifton House 75 Fort Street PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	Union Registrars Limited 18/F Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong
Company's website address	**www.jiayaoholdings.com** *(information contained on this website does not form part of this prospectus)*

The information and statistics that appear in this Industry Overview have been prepared by Euromonitor International Limited and reflect estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics contained in this Industry Overview are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information and statistics prepared by Euromonitor International Limited and set out in this Industry Overview have not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters or any other party involved in the Share Offer and neither they nor Euromonitor International Limited give any representations as to its accuracy and the information and statistics should not be relied upon in making, or refraining from making, any investment decision.

OVERVIEW OF CIGARETTE MARKET IN THE PRC

Government industry policies exert great impact on the cigarette market

The cigarette market in the PRC is monopolized by the government, primarily STMA and CNTC. STMA is a governmental body and the law enforcing agent established for the administration of the tobacco industry and the implementation of its monopoly system in the PRC. Its main roles include:

(i) researching and developing strategies and plans relating to the tobacco industry;

(ii) supervising the implementation of the PRC tobacco monopoly laws and regulations;

(iii) organising the production, management, storage and transportation and import and export of the tobacco commodities within the PRC;

(iv) advising on tax and economic policies, regulations, norms and quality standard relating to the tobacco industry;

(v) formulating appropriate reform and modernizing the tobacco industry;

(vi) implementing major researches and promoting education development, scientific and technological achievements relevant to the industry;

(vii) implementing unified leadership, monopoly franchise, financial control and internal auditing; and

(viii) exercising matters assigned by the State Council.

CNTC is a state-owned enterprise leaded by STMA. Its scope of business covers monopoly production, management and import and export trade of tobacco in the PRC and operation and management of the state-owned assets. The main roles of CNTC involve:

(i) implementing research investment, infrastructure preparation, technical plan, key projects and conducting industry-wide statistical analysis based on national long-term comprehensive plan for the year;

(ii) developing and promoting new technologies in the tobacco industry;

(iii) implementing the national tobacco planting, acquisition and allocation scheme;

(iv) implementing annual cigarette industry production schedule, modern management methods and enterprise management within the tobacco industry;

(v) arranging and planning the national cigarette market and allocation;

(vi) providing advanced technology and equipment to tobacco manufacturers; and

(vii) implementing the national foreign trade policies, unified management and export business of the tobacco industry.

Whereas for China Tobacco Industry Development Center, it is the state-owned enterprise directly under STMA and CNTC which directs, coordinates and manages the production, reform and business activities of its nine subsidiary companies. In recent years, the tobacco industry in the PRC has been undergoing restructuring and consolidation.

Year	**Event**
2000	There were more than 1,180 cigarette brands in China. The market was very fragmented.
2001	STMA issued "Proposal on Accelerating Structural Adjustment for Cigarette Products" (關於加快卷煙產品結構調整的意見), framed "Strategic Research Outline of China Cigarette Brands" (中國卷煙品牌戰略研究提綱), and issued the list of "Famous and High Quality Cigarette Brands over the National Tobacco Industry, 2001" (2001年度全國煙草行業名優卷煙品牌), in which 36 brands were listed. Meanwhile, in pace with the branding strategy of China's cigarette industry, smaller factories were either expelled from the market, acquired or merged.
2004	STMA issued a list of 100 brands (100個卷煙牌號目錄) to be retained, a strategy aimed to reduce the number of cigarette brands.
2006	STMA announced the "Development Outline of China Cigarette Brand" (中國卷煙品牌發展綱要), specifying the plan to focus on cultivating 10 key brands and 10 key enterprises.
2008	STMA proposed a "20+10" plan to identify the 30 Key Cigarette Brands.
2010	STMA announced the 532 Plan and 461 Plan to facilitate the consolidation process and enhance the business scale of the top-tier cigarette brands.

Year	Event
2012	The goal to develop three big cigarette brands like Shuangxi • Double Happiness (雙喜 • 紅雙喜), Hongtashan (紅塔山), Baisha (白沙) and Yunyan (雲煙) reaching the annual production volume of over three million cases was achieved.

Industry consolidation reduces the number of cigarette manufacturers and brands

In 2011, China Tobacco Guizhou was established, which was a milestone to complete the restructuring of all the 16 Provincial Tobacco Industrial Companies and Shanghai Tobacco. The change of cigarette manufacturers' organizational structure may bring a sound management system and become a positive factor in concentrating resources for further development in terms of size and competitiveness.

According to STMA, the number of cigarette manufacturers in the PRC declined to 26 by 2010, as opposed to the year 2000, when there were nearly 200 enterprises involved in cigarette manufacture. These 26 companies are subordinated to CNTC, including one cigarette group (Shanghai Tobacco), 16 Provincial Tobacco Industrial Companies, and nine other non-provincial companies from the China Tobacco Industry Development Center.

Cigarette manufacturers in the PRC, 2013

Identity	Company Name (in English)	Company Name (in Chinese)	Market Share (Sales Volume)
Cigarette Group/ 煙草集團	Shanghai Tobacco Group Co., Ltd.	上海煙草(集團)有限責任公司	6.6%
Provincial Tobacco Industrial Company/ 省級中煙工業公司	China Tobacco Yunnan Industrial Co., Ltd.	雲南中煙工業有限責任公司	88.2%
	China Tobacco Hunan Industrial Co., Ltd.	湖南中煙工業有限責任公司	
	China Tobacco Jiangsu Industrial Co., Ltd.	江蘇中煙工業有限責任公司	
	China Tobacco Zhejiang Industrial Co., Ltd.	浙江中煙工業有限責任公司	
	China Tobacco Hubei Industrial Co., Ltd.	湖北中煙工業有限責任公司	
	China Tobacco Fujian Industrial Co., Ltd.	福建中煙工業有限責任公司	
	China Tobacco Anhui Industrial Co., Ltd.	安徽中煙工業有限責任公司	
	China Tobacco Guangdong Industrial Co., Ltd.	廣東中煙工業有限責任公司	
	China Tobacco Chuanyu Industrial Co., Ltd.	川渝中煙工業有限責任公司	
	China Tobacco Guizhou Industrial Co., Ltd.	貴州中煙工業有限責任公司	
	China Tobacco Guangxi Industrial Co., Ltd.	廣西中煙工業有限責任公司	
	China Tobacco Henan Industrial Co., Ltd.	河南中煙工業有限責任公司	
	China Tobacco Shaanxi Industrial Co., Ltd.	陝西中煙工業有限責任公司	
	China Tobacco Hebei Industrial Co., Ltd.	河北中煙工業有限責任公司	
	China Tobacco Jiangxi Industrial Co., Ltd.	江西中煙工業有限責任公司	
	China Tobacco Shandong Industrial Co., Ltd.	山東中煙工業有限責任公司	

Identity	Company Name (in English)	Company Name (in Chinese)	Market Share (Sales Volume)
China Tobacco Industry Development Center/ 中國煙草實業發展中心	Heilongjiang Tobacco Industry Co., Ltd.	黑龍江煙草工業有限責任公司	5.2%
	Hongta Liaoning Tobacco Co., Ltd.	紅塔遼寧煙草有限責任公司	
	Jilin Tobacco Industry Co., Ltd.	吉林煙草工業有限責任公司	
	Gansu Tobacco Industry Co., Ltd.	甘肅煙草工業有限責任公司	
	Shenzhen Tobacco Industry Co., Ltd.	深圳煙草工業有限責任公司	
	Inner Mongolia Kunming Cigarette Co., Ltd.	內蒙古昆明卷煙有限責任公司	
	Shanxi Kunming Tobacco Co., Ltd.	山西昆明煙草有限責任公司	
	Hainan Hongta Cigarette Co., Ltd.	海南紅塔卷煙有限責任公司	
	Jilin Tobacco Imp & Exp Co., Ltd.	吉林煙草進出口有限責任公司	

Source: Euromonitor; STMA

Top cigarette manufacturers by retail sales volume in the PRC, 2013

Rank	Manufacturer	2011 Retail Sales Volume	2011 Market Share	2012 Retail Sales Volume	2012 Market Share	2013 Retail Sales Volume	2013 Market Share
(Note)		*Billion Sticks*	*(%)*	*Billion Sticks*	*(%)*	*Billion Sticks*	*(%)*
1	China Tobacco Yunnan	536.2	20.7%	471.9	17.7%	496.0	18.4%
2	China Tobacco Guangdong	175.1	6.8%	225.0	8.5%	229.0	8.5%
3	China Tobacco Hunan	166.5	6.4%	220.2	8.3%	226.2	8.4%
4	China Tobacco Hubei	164.4	6.3%	181.3	6.8%	182.8	6.8%
5	Shanghai Tobacco	138.8	5.4%	175.0	6.6%	178.0	6.6%
—	Others	1,411.7	54.4%	1,387.9	52.1%	1,383.4	51.3%
		2,592.7	100	2,661.3	100.0%	2,695.4	100.0%

Source: Euromonitor from desk research and trade interview (such as STMA)
Note: Ranking in 2013

The tobacco industry has been undergoing an evolution initiated by the PRC government focused on consolidating the cigarette market. According to China Tobacco and Euromonitor, the number of cigarette brands reduced from 1,183 in 2001 to 138 in 2009 and then to 90 in 2013. The top 10 brands accounted for 45.3% in 2012 and their share increased to 47.5% in 2013. Meanwhile, the top 10 manufacturers increased their share in sales volume terms from 73.8% in 2012 to 74.9% in 2013.

In 2013, the cigarette industry remained concentrated, with the top five brands holding 29.4% of the market in 2013, and the top five manufacturers holding 48.7% of the market. Shuangxi • Double Happiness (雙喜 • 紅雙喜) was the best performer in 2013 with a sales volume of 212.2 billion sticks.

Top Five Cigarette Brands by retail sales volume in China, 2013

		2011		2012		2013	
		Retail Sales	**Market**	**Retail Sales**	**Market**	**Retail Sales**	**Market**
Rank	**Manufacturer**	**Volume**	**Share**	**Volume**	**Share**	**Volume**	**Share**
(Note)		*Billion Sticks*	*%*	*Billion Sticks*	*%*	*Billion Sticks*	*%*
1	Shuangxi • Double Happiness (雙喜 • 紅雙喜)	—	—	208.3	7.80%	212.2	7.90%
2	Yunyan (雲煙)	115.1	4.40%	150.0	5.60%	170.6	6.30%
3	Hongtashan (紅塔山)	155.0	6.00%	153.0	5.70%	149.2	5.50%
4	Baisha (白沙)	152.5	5.90%	152.5	5.70%	147.4	5.50%
5	Huangshan (黃山)	100.0	3.90%	106.0	4.00%	113.4	4.20%
—	Others	2,070.1	79.8%	1,891.5	71.2%	1,902.6	70.6%
Total		2,592.7	100.0%	2,661.3	100.0%	2,695.4	100.0%

Source: Euromonitor from desk research and trade interview (such as STMA)
Note: Ranking in 2013

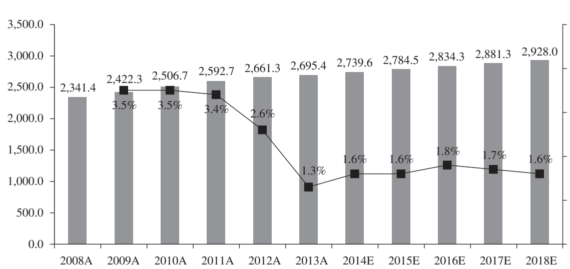
Smoking population in the PRC and the growth in the cigarette market in the PRC

The smoking population of the PRC reached 276.7 million in 2013, with a CAGR of 1.2% from 2008 to 2013. The cigarette market in the PRC reached RMB1,269.4 billion in retail value terms by 2013, a rise of 9.8% over 2012. Leading brands including Chunghua (中華), Yunyan (雲煙), Shuangxi • Double Happiness (雙喜 • 紅雙喜), Furongwang (芙蓉王), Liqun (利群), Yuxi (玉溪) and Huanghelou (黃鶴樓), each reached an annual sales of over RMB40 billion in 2013. By 2018, the cigarette market in the PRC is forecasted to reach RMB3,187.1 billion, equivalent to a CAGR of 20.2% since 2013.

In terms of retail sales volume, the cigarette market in the PRC saw a modest growth of 1.3% to 2,695.4 billion sticks in 2013, the year-to-year growth rate is forecasted to be 1.7% from 2013 to 2018.

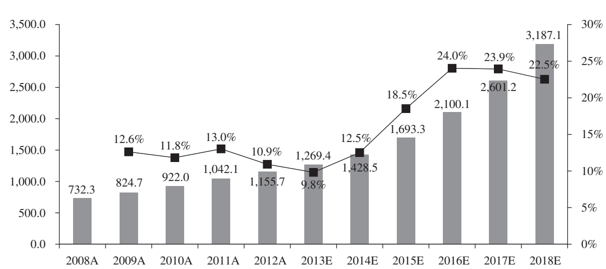
The higher growth rate of the cigarette market in value terms than that of volume indicates the rising unit price for cigarettes. According to the government's plan, the overall cigarette industry in the PRC, especially regarding leading brands, will continue to upgrade its products to improve profitability and competitiveness. In other words, the average price of cigarettes will grow in the next few years.

Retail sales volume of China's cigarette market, 2008A–2013A, 2014E–2018E



Source: Euromonitor Database

Retail sales value of duty-paid cigarettes in China, 2008A–2013A, 2014E–2018E



Source: Euromonitor Database

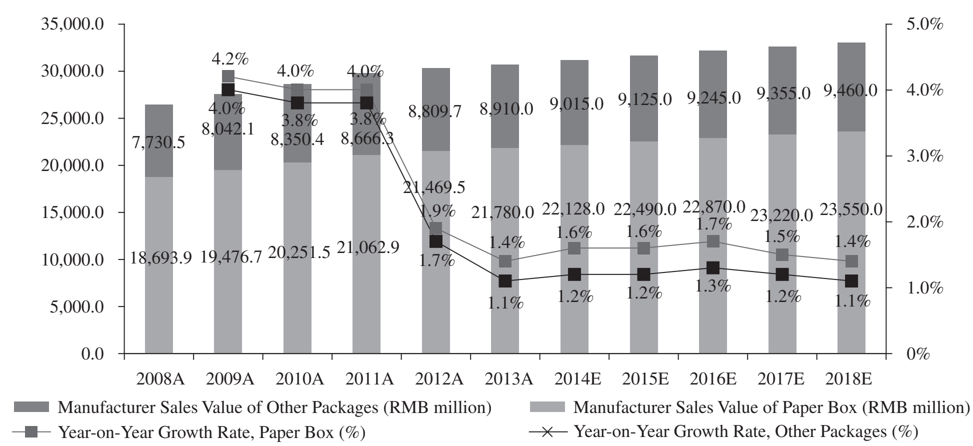
The effect of tobacco control measures on the cigarette industry

As the largest consumer and manufacturer of tobacco in the world, the PRC signed the Framework Convention on Tobacco Control formulated by WHO in 2003, and approved its implementation two years later. It seemed that China had demonstrated its commitment to tobacco control; however, with a review of tobacco control in the past five years, it does not seem to have a material adverse impact on China's cigarette market. It is predicted that the cigarette market in the PRC may still keep steady in the next few years. Nonetheless, there remains a possibility that tobacco control measures may have a negative influence to the future growth of the PRC cigarette industry.

OVERVIEW OF CIGARETTE PACKAGING MARKET IN THE PRC

The cigarette packaging industry in the PRC has been growing mildly at a CAGR of around 3.0%, approximately to that of retail sales volume of cigarette from 2008 to 2013, valued at RMB30,690.0 million in 2013. The cigarette packaging industry, in line with the performance of the cigarette market, witnessed a slowdown in growth rate in the past five years. The sluggish growth in the cigarette market stems largely from the upgrading of product, or adjustment to product portfolio. This eventually had a negative influence on the growth of the cigarette packaging industry. For 2013 to 2018, China's cigarette packaging industry is expected to have a steady CAGR of 1.5%, compared with that of 1.7% for the retail sales volume of cigarette market. Tobacco control measures, may also have a negative influence to the future growth of the PRC cigarette packaging industry in the PRC.

Manufacturer sales value of cigarette packaging in China, 2008A–2013A and 2014E–2018E



Source: Euromonitor trade interviews and desk research

Paper package was the largest cigarette packaging contributor in 2013, with a value share of 71.0%. Other packaging types, including: flexible aluminium foil, metal tin and flexible plastics, accounted for a combined share of less than 30%. Of all the packaging types, paper package shows the greatest potential in the next five years, as the upgrading of cigarettes will inevitably impose higher requirement for packaging, therefore leading to cigarette packaging being upgraded to better quality. Moreover, consumers prefer paper packages because of its portability.

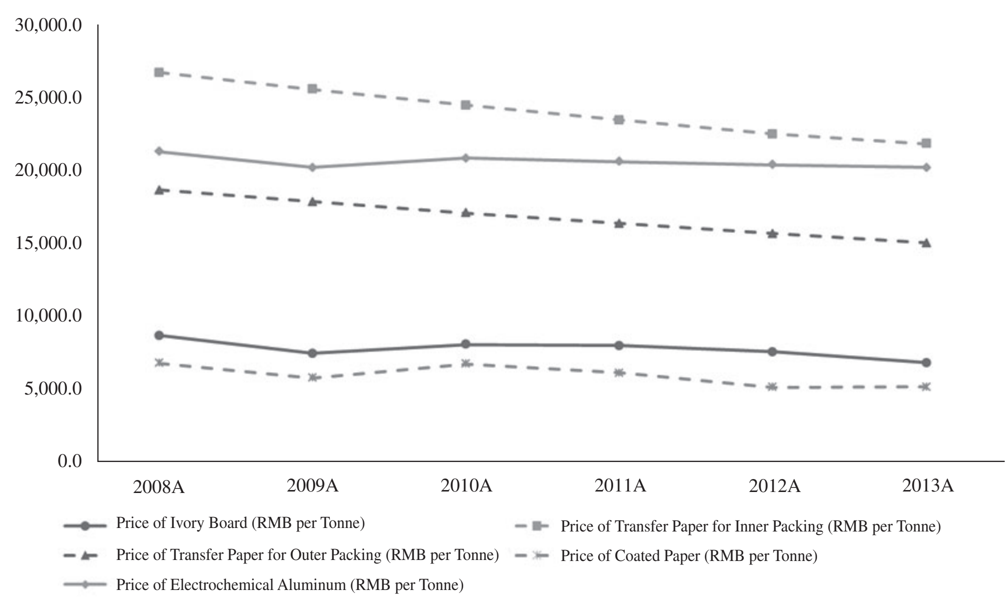
Procurement of raw materials for tobacco production has been under official scrutiny

In November 2010, STMA issued the Rules on the Procurement Management of Cigarette-related Materials (煙用物資採購管理規定). The rules have a comprehensive coverage of supplier management, procurement procedures and supervision. Cigarette manufacturers are required to appraise the qualification of their potential suppliers and suppliers which are considered not qualified will be eliminated in future procurement. The procurement of raw materials for tobacco production has several forms, among which public tendering must be the primary method. Each tender invitation must be published in media accessible to the public, and the number of qualified suppliers for further tendering should be no fewer than three to guarantee cost control. In order to prevent cut-throat competition, cigarette manufacturers will set both lower and upper limitations on the pricing of the procurement, and the upper limitation was expected to reduce the average price of cigarette packaging. Finally, the departments of the supervision will be in charge of the supervision of eliminating illegal activities in the procurement process.

PRICES OF MOST RAW MATERIALS RECOVERED IN RECENT YEARS

According to trade sources, all of the key materials for cigarette packaging suffered a decline in 2009, as the overall market demand was depressed by the financial crisis in 2008. From 2010 to 2013, the prices of most raw materials descended due to higher competition, lower raw material cost and government policy of cigarette packaging simplification.

Raw material price, 2008–2013



Source: Euromonitor's estimates from trade interviews and desk research (i.e. Wind Information Co., Ltd)

COMPETITIVE LANDSCAPE

Cigarette packaging market in the PRC

The cigarette packaging industry is a maturing market in the PRC, with over 100 scaled companies that place heavy business concentration on cigarette packaging, as well as thousands of small to medium-sized packaging manufacturers. Before the implementation of the tendering system in end of 2010, cigarette manufacturers in the PRC, adopted an "approved supplier" system, under which these cigarette manufacturers usually only purchased cigarette packaging from their respective list of "approved suppliers".

Top cigarette packaging manufacturers in the PRC in terms of manufacturer sales value, 2013

Rank	Manufacturer	Manufacturer Sales Value	Market Share	Location	Listed or Unlisted
		(RMB million)	*%*		
1	PRC Competitor A	2,953.9	9.6%	Hong Kong	Listed
2	PRC Competitor B	1,890.0	6.2%	Changde, Hunan Province	Unlisted
3	PRC Competitor C	1,869.8	6.1%	Shenzhen, Guangdong Province	Listed
4	PRC Competitor D	1,576.5	5.1%	Shantou, Guangdong Province	Listed
5	PRC Competitor E	1,481.7	4.8%	Shenzhen, Guangdong	Listed
—	Our Group	469.5	1.5%	Yichang, Hubei Province	Unlisted
—	Others	20,448.6	66.7%		
—	Total	30,690.0	100.0%		

Source: Euromonitor's estimates from trade interviews and desk research

Entry Barriers

The number of competitors in the cigarette package industry is limited by several industry entry barriers including:

Substantial initial capital investment

Entering the cigarette package requires the commitment of substantial initial capital investment in equipment and machinery to produce quality products. The manufacturing of cigarette packages consists of three main production stages (i.e. the press stage, post-press stage and the quality control stage) and each of the main production stages requires a combination of different industrial equipment and machineries. As the quality standard set for cigarette packages by cigarette manufacturers are generally demanding and the specification for cigarette packages varies from product to product, it may be necessary for cigarette package manufactures to import expensive and sophisticated machineries in order to ensure product quality and to purchase various types of machines to ensure capability to produce products with varying specifications. As prerequisites to begin production, market entrants are required to purchase the machineries, establish plants and facilities and hire employees with technical abilities and experience, all of which require substantial capital investment.

Industry knowledge, technical know-how and product capability

There are requirements of industry knowledge, technical know-how and product design capability for cigarette package manufactures to understand and satisfy the needs of cigarette manufactures. The industry requires cigarette package manufacturers to possess substantial industry knowledge and technical know-how to meet the demanding quality standard set by the cigarette manufactures and keep pace with the increasing number of stringent requirements imposed on the industry, such as environmental-related industry standards. Small and medium cigarette package manufacturers' inadequacy in technology makes them unable to compete with leading players. Industry knowledge and technical know-how are also required for cigarette package manufactures to develop their capability to produce different varieties of cigarette package products as the specification for cigarette packages varies hugely from product to product. With the ongoing consolidation of cigarette brands in PRC's cigarette industry and the focus on developing products of higher quality, the ability of product design has become increasingly important for cigarette package manufacturers to tap into the opportunities created by the current trend in the cigarette industry. Product design for cigarette packaging is a niche specialty in the industry with a limited supply of talents. Thus, there will be limitations for market entrants to develop such capabilities in a short period.

Time required for cigarette manufacturers to acquire the "approved supplier" status

It takes significant time for cigarette manufacturers to assess a new cigarette package manufacturer before granting "approved supplier" status to such cigarette package manufacturer. The granting of the "approved supplier" is largely based on the assessment of a cigarette package manufacturer's production capabilities with a proven track record. Market entrants without any prior experience may struggle to provide any convincing credentials to cigarette manufacturers.

Participation in the tendering system

Since the implementation of the tendering system in late 2010, it became a process which all cigarette package manufacturers, including market entrants, need to go through in order to procure orders from cigarette manufacturers. The tendering system generally contains a comprehensive assessment criteria including the assessment of different factors such as pricing, production capacity, quality control under a scoring system. As such, the tendering system which assesses the overall production capability of cigarette package manufacturers may favor established cigarette package manufacturers over market entrants with less experience in the industry.

Future opportunities and challenges to the cigarette packaging market

Fragmented market

The cigarette packaging market, though following the consolidation, is still fragmented with a large number of manufacturers, some with diversified businesses and the others focused on cigarette packaging. However, premium cigarette packaging is mainly produced by the top manufacturers.

In 2013, the government continued encouraging cigarette manufacturers to make greater efforts to develop high-end cigarettes. These packaging usually have better quality, such as packaging produced with combined printing methods and non-toxic and low-VOC ink. This inevitably imposes higher requirements on packaging manufacturers' technological capability. Small and medium manufacturers' inadequacy in technology makes them unable to compete with leading players in the medium and high-end market, whose added-value is higher. In other words, profits brought by the upgrading of cigarette will be largely reaped by top manufacturers. We believe that our Group will benefit from the above government policies as, instead of positioning our Group as a mere manufacturer of paper cigarette packages, it is our strategy to implement more cost-effective and environmentally printing technology. With these strategies and market positioning, we believe our Group should be able to differentiate ourselves from the other market players in the fragmented cigarette packages manufacturing industry and will continue to benefit from the development of high-end cigarette trend.

Environmentally-friendly packaging is increasingly addressed

With increased awareness of environmental protection, both the government and consumers are paying more attention to the possible harm to the environment caused by cigarette packaging manufacturing. Besides the Environmental Protection Law, the PRC government also enacted standards such as Tolerance Values of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers (《卷煙條與盒包裝紙中揮發性有機化合物的限量指標》) and Determination of Volatile Organic Compounds in Cigarette Carton and Packet Packaging Papers — Headspace-gas Chromatography (《卷煙條與盒包裝紙中揮發性有機化合物的測定：頂空—氣相色譜法》), to prevent packaging manufacturers using materials harmful to the environment. Although most of the flexible plastics used by manufacturers is non-degradable, degradable flexible plastic, has been developed and is predicted to be put into use when its cost is reduced. Meanwhile, the use of environmentally friendly materials, such as water-based ink, are also restricted by high cost and now mainly used in high-end cigarette packaging. Our Group may be affected by the increase in public and governmental awareness of environmental protection with a resulting potential increase in expenses on the environmental costs.

Cigarette packaging industry is expected to undergo the incoming consolidation

The ongoing consolidation of the cigarette industry drives a similar consolidation in the cigarette packaging, where it is the industry norm for: (i) a cigarette manufacturer to identify two to five cigarette package producers as its suppliers; and (ii) a cigarette package producer to hold mainly two to five major customers to secure a relatively stable and closer business relationship with each other.

In addition, China's cigarette market will upgrade in the next few years by focusing on developing products of higher quality, which are set at higher prices and require better packaging. However, many small and medium packaging manufacturers are unable to meet the higher requirements for the packaging of first and second grade cigarettes because of their technological inadequacy and designing capabilities, whereas large manufacturers have their competitive edge when securing the contract with cigarette manufacturers. In short, the upgrading trend in the cigarette market will probably have contrasting effect on the cigarette packaging industry, favorable to large cigarette package manufacturers and unfavorable to small and medium ones, and accelerate the on-going consolidation.

With the current mixed-sized customer base, our Directors believe that our Group may be affected by the on-going consolidation in the cigarette packaging industry. For further details regarding our strategies to expand our customer-base, please refer to sections headed "Business — Business strategies — To strengthen our sales and marketing efforts by enhancing relationship with existing customers and developing business with potential customers" and "Risk Factor — We rely heavily on the sales of paper cigarette packages and any tightened tobacco control measures or consolidation within the PRC cigarette industry may adversely affect our Group's business and prospect" in this prospectus.

Cigarette packaging players has been attempting to diversify business beyond cigarette packaging

Consolidation in the cigarette industry created opportunities on the one side, but radiated risk as well. For those players who maintained a solid connection with the leading cigarette manufacturers, they will continue to benefit from the increased purchase-order quantity from the clients, however confronted with the fierce competition from others; they may lose a portion of their share. For those players focusing on the relationship with small and medium-sized manufacturers, they are estimated to suffer the results of the revolution and lose the ground to even be involved in the cigarette business. Hence, action to transfer resources as a strategy to diversify the current business model would be critical to avoid negative effects and attain a healthy financial performance. As the paper cigarette package industry and other paper package industry have certain similarities, most of the industry knowledge and technical know-how are transferrable from the paper cigarette packaging industry to the other paper package industry, the latter has become a viable option for cigarette package manufacturers to expand their business model.

Our Directors believe that our Group may be affected by the on-going consolidation due to the more demanding procurement requirements in future tendering as a result. For further details regarding our strategies to diversify our products portfolio, please refer to sections headed "Business — Business Strategies — To enhance our product variety by further developing our social product paper packages" and "Risk Factors — We rely heavily on the sales of paper cigarette packages and any tightened tobacco control measures or consolidation within the PRC cigarette industry may adversely affect our Group's business and prospect" in this prospectus.

DIRECTORS' CONFIRMATION

Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

SOURCES OF INFORMATION

Euromonitor is a market research company with a focus on industry, country, company and consumer lifestyle research and is an Independent Third Party.

Euromonitor was commissioned by our Company to prepare the Euromonitor Report in respect of the cigarette industry and the cigarette package industry in the PRC for an aggregate fee of RMB600,000, which our Directors consider in line with the market rates.

Methodology

Euromonitor primarily undertook top-down central research with bottom-up intelligence to present a more comprehensive and accurate picture of cigarette and cigarette packaging market in the PRC and Hubei province. The following research methodologies were utilized.

Whilst Euromonitor has conducted independent trade interviews with trade associations and industry experts, leading manufacturers that are involved in cigarette market and cigarette packaging market, it is noted that the cigarette packaging market is fragmented with a number of manufacturers and therefore building an industry consensus was challenging.

For the PRC cigarette market size and shares, Euromonitor used its existing syndicated Tobacco 2014 data (consists of data prior to 2014) checked against the published data from State Tobacco Monopoly Administration. National level data may vary from previous and subsequent editions as research is periodically updated as Euromonitor constantly updates and improves its data quality.

To build our final estimates for the China and Hubei Cigarette Packaging market size, shares and forecasts, Euromonitor interviewed leading players for their view of the estimate of the market's overall size, ranking and shares, trends and drivers, forecasts and major players' market position and sales performance and growth of cigarette packaging products. Secondary sources such as company annual reports, published figures by trade association, were also used in Euromonitor's analysis.

The market share data reported in the Euromonitor Report has been determined via a fieldwork program consisting of desk research and trade interviews. While audited data is available for some of the companies, they typically do not break the revenue numbers into the relevant categories which are covered in the study. For these companies as well as those companies that are included in the market shares but are not publicly listed, Euromonitor has estimated the markets shares based on estimates provided by various trade sources (i.e. not just the companies themselves) and has sought a consensus on these estimates as much as possible. For avoidance of doubt, market share estimates as contained in the table above are based on views of interviewed trade sources and not Euromonitor's view of the market shares.

ASSUMPTIONS AND PARAMETERS

The following assumptions have been used by Euromonitor in the compilation of the Euromonitor Report:

- the macro economy and demographics are important in the projection of the size of the cigarette market, which further have a large impact on the development of the cigarette package market;
- the macro economy in the PRC is assumed to maintain a steady growth across the forecast period;
- the smoking culture in the PRC will be stable and not experience radical changes over the forecast period; and
- the acceptance level of cigarette substitutes will remain low over the forecast period.

The following parameters are considered by Euromonitor in their market sizing and forecast model:

- for the period from 2008 to 2013 — (i) Retail Sales Value of Duty-Paid Cigarettes in the PRC; (ii) Retail Sales Volume of the Cigarette Market in the PRC; (iii) Smoking population by gender in the PRC; (iv) Manufacturer Sales Value of Cigarette Packaging in the PRC; and (v) Price for Raw Materials; and

- for the year 2013 — (i) Top Cigarette Manufacturers by Retail Volume Sales in the PRC; (ii) Top Cigarette Package Manufacturers in the PRC in terms of Manufacturer Sales Value; and (iii) Top Cigarette Brands by Retail Sales Volume in the PRC.

The research by Euromonitor may be affected by the accuracy of the above assumptions and the choice of the above parameters.

PRC REGULATIONS ON THE CATALOGUE OF INDUSTRIES FOR GUIDING FOREIGN INVESTMENT

According to *the Guiding the Direction of Foreign Investment Provisions*(指導外商投資方向的規定) promulgated by PRC State Council (國務院) on 11 February 2002 and came into effect on 1 April 2002, industries in China are classified into four categories: "permitted foreign investment industries", "encouraged foreign investment industries", "restricted foreign investment industries" and "prohibited foreign investment industries". "encouraged foreign investment industries", "restricted foreign investment industries" and "prohibited foreign investment industries" are stipulated in *the Catalogue of Industries for Guiding Foreign Investment* (外商投資產業指導目錄). Those industries which do not fall within any of these three categories are regarded as "permitted foreign investment industries", which are not stipulated in the Catalogue of Industries for Guiding Foreign Investment.

The Catalogue of Industries for Guiding Foreign Investment promulgated on 30 November 2004 by the National Development and Reform Commission (國家發展和改革委員會) and the MOFCOM (商務部), was revised on 7 November 2007 and enforced on 1 December 2007 (the "2007 Industrial Guidance Catalogue") and later revised on 24 December 2011 and enforced on 30 January 2012 (the "2011 Industrial Guidance Catalogue"). According to both the 2007 Industrial Guidance Catalogue and the 2011 Industrial Guidance Catalogue, the industries in which the PRC subsidiaries of the Company engage do not fall in any of the "restricted foreign investment industries" or "prohibited foreign investment industries".

LAWS AND REGULATIONS IN RELATION TO THE PRINTING INDUSTRY

The initial framework for regulating the domestic printing industry was provided in *the Regulations on the Administration of Printing Industry* (印刷業管理條例) (the "1997 Regulations") promulgated by PRC State Council on 8 March 1997 and came into effect on 1 May 1997, which was subsequently abolished and superseded by the new *Regulations on the Administration of Printing Industry* (印刷業管理條例) (the "2001 Regulations") promulgated by the State Council on 2 August 2001.

The PRC Government delegates the administration of printing product regulations to various government entities. The main regulatory bodies are the General Administration of Press and Publication (新聞出版總署)(GAPP) and its local departments and the local administrations for industry and commerce. According to the 2001 Regulations, a printing company is required to obtain the approval from the GAPP or its authorized local agencies and then subsequently obtain a printing licence (印刷經營許可證) from the publication administrative authority at provincial level and a business licence from the local administration for industry and commence. A printing licence shall not be leased, lent or transferred by any means.

Pursuant to *the Interim Provisions on the Qualifications of Printing Operations* (印刷業經營者資格條件暫行規定) issued by the GAPP on 9 November 2001, which specifies the qualifications required for the enterprises to engage in printing operations, printing operators must satisfy such qualification requirements in order to obtain an approval for their establishment and application for printing licence from the press and publication administration.

In accordance with the Interim Provisions on the Qualifications of Printing Operations, in order to obtain a printing licence, applicants are required to: (i) submit the name of the enterprise and its articles of association; (ii) provide a well-defined scope of business; (iii) be in possession of production and business premises that can meet the needs of its scope of business, and necessary capital, equipment and other production and business conditions as well; (iv) be in possession of an organizational structure and staff that can meet the needs of its scope of business; and (v) fulfill other conditions stipulated by the relevant laws and administrative regulations.

APPROVALS OF FOREIGN INVESTMENT IN PRINTING INDUSTRY

Under *the Interim Provisions on the Establishment of Foreign-Invested Printing Enterprise* (設立外商投資企業印刷企業暫行規定) (the "2002 Interim Provisions") which jointly promulgated by the GAPP and the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部), the predecessor of the MOFCOM on 29 January 2002, the establishment of foreign-invested printing enterprises, in the forms of Chinese-foreign equity or cooperative joint ventures ("Joint Ventures") or wholly foreign owned enterprises ("WFOEs"), shall be subject to the approvals by both the GAPP and the MOFCOM. The Joint Ventures can engage in the printing business for printing products used for publications, printing products for packaging and decoration and other printed matters, but the WFOEs are only allowed to engage in the printing business for printing of products used for packaging and decoration.

Pursuant to *Circular of the Ministry of Commerce on Entrusting the Administrative Departments of Commerce at the Provincial Level to Examine and Administer the Foreign-invested Printing Enterprises* (商務部關於委託省級商務主管部門審核管理外商投資印刷企業的通知) issued by the MOFCOM dated 12 January 2006, the MOFCOM has delegated the authority in approving the establishment of Joint Ventures and WFOEs to its local counterparts at the provincial level.

LAWS AND REGULATIONS IN RELATION TO PACKAGING AND LABELING OF TOBACCO

Pursuant to the Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (關於規範境內銷售卷煙包裝標識的規定) promulgated on 23 September 2005 by the State Tobacco Monopoly Administration (國家煙草專賣局) (STMA) and became effective on 1 January 2006, there shall be a distinct warning of "Smoking is harmful" (written in Chinese) on the packaging and a label of product name; and it is prohibited to use the wording such as "environmentally friendly", "gentle" or "low tar" on the packaging of the tobacco. According to the Provision of Regulating the Packaging and Labeling of Domestic Sales of Tobacco, the tobacco manufacturers are responsible for ensuring the compliance of such provision.

LAWS AND REGULATIONS IN RELATION TO QUALITY AND SAFETY OF PRODUCTS

The Product Quality Law of the PRC (中華人民共和國產品質量法) (the "Product Quality Law") was adopted by the NPCSC on 22 February 1993 and amended on 8 July 2000 and on 27 August 2009. Applicable to all production and marketing activities in China, the Product Quality Law was formulated to strengthen the administration of rules pertaining to product quality, as well as to clarify the rules on product liability, protect consumers and maintain social and economic order.

The State Council established a supervising department for conducting nationwide supervision over product quality, with local authorities performing this duty at the local level. Products offered for sale must meet the relevant quality and safety standards. Enterprises must not produce or market counterfeit products in any fashion, including forging brand labels or giving false information about the manufacturer of a product. Violations of state or industrial standards for health safety and any other related violations may result in civil liabilities and penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced for sale and the sales proceeds of such products. The responsible individual or enterprise will be subject to criminal liabilities for serious violation. Manufacturers whose products cause personal or property damages due to their latent defects are liable for such damages.

For the implementation of the Product Quality Law, *the Regulation on the Administration of Production Licence for Industrial Products of the PRC* (中華人民共和國工業產品生產許可證管理條例) ("Production Licence Regulation") was promulgated on 9 July 2005 by the State Council and became effective on 1 September 2005 to regulate product quality and safety. Subsequently, on 15 September 2005, for the implementation of the Production Licence Regulations, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) ("AQSIQ") promulgated the *Measures for the Implementation of the Regulations on the Administration of Production Licence for Industrial Products of the PRC* (中華人民共和國工業產品生產許可證管理條例實施辦法) ("Production Licence Measures"), which came into effect on 1 November 2005 and amended on 21 April 2010 and implemented on 1 June 2010. Pursuant to the Production License Regulations and the Production Licence Measures, relevant authorities at the provincial level and above are responsible for issuing production licence to enterprises engaged in the production of various industrial products crucial to public security, human health, and safety of life and property, such as meat, dairy, beverages, rice, edible oil, alcohol, electric blankets, pressure pots, safety helmets, dangerous chemicals and packaging and containers for dangerous chemicals. From time to time, the AQSIQ formulates and revises the catalogue of industrial products subject to the production licensing system. Enterprises engaged in production of products listed in such catalogue must apply for and obtain production licences from competent authorities. Manufacturing such products without a valid production licence is strictly prohibited. Any violation will result in warnings, fines, confiscation of products illegally produced and proceeds from their sale, suspension or even shutdown of the business committing the violation. Criminal liabilities may also be imposed for serious violations. The valid period of the production licence ranges from three to five years, and enterprises must follow the renewal procedures before the expiration of their production licences in order to continue their production.

LAWS AND REGULATIONS IN RELATION TO PRODUCTION SAFETY

Pursuant to the *Production Safety Law of the PRC* (中華人民共和國安全生產法) which became effective on 1 November 2002 and amended on 27 August 2009, the State Administration of Work Safety (國家安全生產監督管理總局) is in charge of the overall administration of production safety. This law provides that an entity engaging in manufacturing activities must meet national or industry standards regarding safety production and provide relevant working conditions as required by the laws, administrative rules and the national or industry standards. Enterprises must undertake necessary measures to set up and maintain appropriate equipment, monitor the safety of production procedures, assign designated personnel, conduct workplace training and undertake all other measures required by the law to ensure the safety of employees and the general public. Any responsible individual or enterprise that fails to perform its duty to meet the safety production standards may be ordered to rectify the violations within the prescribed period and/or pay a fine. Failure to rectify the violations within the prescribed period may result in suspension or shutdown of the business committing the violation. Serious violations that result in any production safety accident may subject the responsible individuals to criminal liabilities.

LAWS AND REGULATIONS IN RELATION TO IMPORT OR EXPORT OF PRODUCTS

The Foreign Trade Law of the PRC (中華人民共和國對外貿易法), which was promulgated on 12 May 1994 and amended on 6 April 2004, and *the Measures for the Archival Filing and Registration of Foreign Trade Business Operators* (對外貿易經營者備案登記辦法), which was promulgated by the MOFCOM on 25 June 2004 and effective on 1 July 2004, require that foreign trade operators who engage in the import or export of goods or technologies must register with the MOFCOM or another institution authorized by the MOFCOM. In addition, if a company imports or exports goods as a consignee or a consignor, it must register with local Customs authority and obtain the PRC Customs Declaration Registration Certificate (中華人民共和國海關進出口貨物收發貨人報關註冊登記證書) for Consignors and Consignees pursuant to *the Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities* (中華人民共和國海關對報關單位註冊登記管理規定) promulgated by the General Administration of Customs on 31 March 2005 and effective on 1 June 2005.

According to *the Law on Inspection of Import and Export Commodity of the PRC* (中華人民共和國進出口商品檢驗法), which was promulgated by the NPCSC on 21 February 1989 and revised on 28 April 2002 and *the Regulations for the implementation of the law on the inspection of Import and Export Commodity of the PRC* (中華人民共和國進出口商品檢驗法實施條例), which was passed by the State Council at on 10 August 2005 and came into force on 1 December 2005, the AQSIQ oversees the inspections of all import and export commodities of the PRC, while the local authorities perform in the regions under their jurisdiction. Such inspections cover the quality, specifications, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection, among others, and are governed by inspection standards under the law.

LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

The Environmental Protection Law, which was promulgated by the NPCSC and came into effect on 26 December 1989, sets forth the legal framework for environmental protection in China. The Ministry of Environmental Protection (環保部) is primarily responsible for overall supervision and administration of national environmental protection, while local environmental protection authorities at the county level and above are responsible for environmental protection within their respective jurisdictions.

According to the Environmental Protection Law, any enterprise involved in a construction project that may generate pollution must prepare, for prior approval by the relevant environmental protection authorities, an environmental impact report assessing the pollution and environmental impact of the construction project and setting forth prevention and treatment measures. Construction projects are not permitted to be proceeded with until the facilities have been inspected and approved by the environmental protection authorities. Environmental protection facilities may not be dismantled or idled without prior consent from the relevant authorities.

The *PRC Law on the Prevention and Treatment of Air Pollution* (中華人民共和國大氣污染防治法), the *PRC Law on the Prevention and Treatment of Water Pollution* (中華人民共和國水污染防治法), the *PRC Law on the Prevention and Treatment of Noise Pollution* (中華人民共和國環境噪聲污染防治法) and the *PRC Law on the Prevention and Treatment of Solid Waste Pollution* (中華人民共和國固體廢物污染環境防治法) together impose further requirements on the factories on the discharge and treatment of waste by-products, including waste water and chemical waste.

According to the provisions of *Law of the People's Republic of China on the Promotion of Clean Production* (中華人民共和國清潔生產促進法), passed at the 28th Session of the 9th NPC Standing Committee of the PRC on 29 July 2002, came in effect in 1 January 2003 and revised at the 25th Session of the 11th NPC Standing Committee of the PRC on 29 February 2012, the products and packages design should take into account their effects on human health and the environment during their life cycle, and priority shall be given to products and packages that are non-toxic, harmless, easily decomposed or recyclable. Enterprises shall pack their products in a reasonable manner, the materials, structure, and the cost of the packaging shall match with the quality, specifications and cost of the product inside, the packaging wastes shall be reduced, and excessive packaging is not allowed.

In addition, according to the *Public Places Hygiene Management Regulation Enforcement Rules* (公共場所衛生管理條例實施細則), which was promulgated by PRC Ministry of Health on 10 March 2011 and became effective on 1 May 2011, smoking and setting cigarette vending machines in public indoor venues are prohibited; smoking sections in the public outdoor venues shall not be placed beside the passageway; and the operators of public places shall set up distinct warning and label for prohibiting smoking.

LAWS AND REGULATIONS IN RELATION TO LABOUR AND SOCIAL INSURANCE

On 5 July 1994, the NPCSC promulgated the *Labour Law of the PRC* (中華人民共和國勞動法), which became effective on 1 January 1995. On 29 June 2007, the NPCSC promulgated the *Law of the PRC on Employment Contracts* (中華人民共和國勞動合同法), which became effective on 1 January 2008 and amended on 28 December 2012 and implemented on 1 July 2013. Pursuant to the said law, a written labour contract shall be concluded within one month from the date on which the employee commences working; otherwise the employer shall pay twice of the monthly wage. Labour contract is categorized into three types, namely labour contract with fixed term, labour contract without fixed term and labour contract to be expired upon completion of certain task. Where the employee has already worked for the employer for 10 full years consecutively or the labour contract is to be renewed after two fixed-term labour contracts have been concluded consecutively, a labour contract without fixed term shall be concluded.

The *Law for Promotion of Employment of the PRC* (中華人民共和國就業促進法), promulgated by the NPCSC on 30 August 2007 and effective as of 1 January 2008, provides that no employee shall be discriminated in employment by reason of race, ethnic, gender, or religion. The employer should neither refuse to recruit nor raise the standards on recruitment of any woman by reason of their gender; and no provision limiting any female employee in terms of getting married and child-bearing is allowed in the labour contract. The employer should not refuse the employment of anyone for the reason that the individual is a pathogen carrier, unless that person engages in work which may cause a wide spread of diseases. Moreover, enterprises should allocate the employee education fund for occupational training and further education of employees, violation of which may result in punishment imposed by the labour administration.

Pursuant to *the Social Insurance Law of the PRC* (中華人民共和國社會保險法) (the "New Social Insurance Law") promulgated on 28 October 2010 by the NPCSC and implemented on 1 July 2011, the *Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by the PRC State Council, the *Interim Measures Concerning the Maternity Insurance of Employees of an enterprise* (企業職工生育保險試行辦法) promulgated on 14 December 1994 and implemented on 1 January 1995 by former Ministry of Labour, the *Regulation on the Administration of Housing Provident Fund* (住房公積金管理條例) promulgated and implemented on 3 April 1999 and amended on 24 March 2002 by the PRC State Council, the *Regulation on Occupational Injury Insurances* (工傷保險條例) promulgated on 27 April 2003 by PRC State Council and implemented on 1 January 2004 and amended on 20 December 2010 by the PRC State Council, and regulations on pension insurance, medical insurance and unemployment insurance in the provincial and municipal level, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund, occupational injury insurance fund, maternity insurance fund and housing provident fund for the employees. After the New Social Insurance Law became effective, where an employer fails to pay social insurance premiums on time or in full amount, it will be ordered by the collection agency of social insurance premiums to pay or make up the deficit of premiums within a prescribed time limit, and a daily late fee at the rate of 0.05% of the outstanding amount from the due date will be imposed; and if it still fails to pay the premiums within the prescribed time limit, a fine of one to three times the outstanding amount might be imposed by the relevant administrative department.

LAWS AND REGULATIONS IN RELATION TO FOREIGN CURRENCY EXCHANGE

The principal regulation governing foreign currency exchange in the PRC is *the Regulations of Foreign Exchange Administration of the PRC* (中華人民共和國外匯管理條例) (the "Foreign Exchange Administration Regulations"). It was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008.

Pursuant to the Foreign Exchange Administration Regulations, the account of foreign-invested enterprises has been divided into current account and capital account. RMB is freely convertible to the extent of the current account items, including distribution of dividends, interest payment, trade and service-related foreign exchange transactions by complying with certain procedural requirements. But the PRC Government supervises and controls the foreign exchange under the capital account. Any institution or individual with foreign debts shall abide by the relevant state provisions and register with the foreign exchange administrative authorities.

On 29 August 2008, the SAFE promulgated the *Notice of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises* (國家外匯管理局關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (the "Circular 142"), regulating the conversion of registered capital in foreign currency into RMB by a foreign-invested company by restricting how the RMB after conversion may be used. The Circular 142 provides that after converting the foreign currency into RMB, the registered capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, the SAFE strengthened its control over the flow and use of the RMB capital which was converted from registered capital of a foreign-invested company in foreign currency. The use of such RMB capital may not be altered without the SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if such loans have not been used. Violations of the Circular 142 could result in severe monetary penalties.

LAWS AND REGULATIONS IN RELATION TO NEGOTIABLE INSTRUMENTS

The *Negotiable Instruments Law of the PRC* (中華人民共和國票據法) (the "Negotiable Instruments Law"), was promulgated by NPCSC on 10 May 1995, which came into effect on 1 January 1996 and was amended on 28 August 2004, consists of seven chapters, covering General Provisions, Drafts, Promissory Notes, Cheques, Applicability of the Law to Foreign Negotiable Instruments, Legal Responsibilities, and Supplementary Provisions. Chapter 2 (Drafts) contains detailed provisions on endorsement, acceptance, guarantee, payment, and the right of recourse. Subsequent chapters discussing the various types of negotiable instruments, such as cheques, promissory notes, and foreign instruments, incorporate these provisions by reference.

For the implementation of the Negotiable Instruments Law, the *Administrative Measures on the Negotiable Instruments* (票據管理實施辦法) was promulgated on 21 August 1997 by The People's Bank of China (中國人民銀行) (PBOC) and became effective on 1 October 1997 to regulate the administration of negotiable instruments within the territory of the PRC. Subsequently, on 19 September 1997, PBOC promulgated the *Measures for Payment and Settlement* (支付結算辦法), pursuant to which, the eligible holder of a commercial draft may apply to the bank for discount on the strength of the undue commercial draft and the discount certificate. The discount bank may apply for inter-bank discount on the strength of the undue commercial draft, or may apply for rediscount to the PBOC. In the case of discount, inter-bank discount or rediscount, transfer endorsement shall be made.

LAWS AND REGULATIONS IN RELATION TO TAXATION

EIT

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the *Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC* (中華人民共和國外商投資企業和外國企業所得稅法) (the "FIE Income Tax Law") promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules.

Pursuant to the FIE Income Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by laws or administrative regulations. The income tax on foreign-invested enterprises established in special economic zones, foreign enterprises which have establishments or places in special economic zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in economic and technological development zones, was levied at the reduced rate of 15%.

According to the *PRC Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) (the "EIT Law"), enacted on 16 March 2007 and effective on 1 January 2008, and the *Implementing Rules of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) (the

"EIT Rules"), enacted on 6 December 2007 and effective on 1 January 2008, a uniform income tax rate of 25% will be applied towards PRC enterprises, and foreign investment and foreign enterprises which have set up institutions or facilities in the PRC.

Enterprises which enjoyed EIT rates of lower than the standard rate of 33% are given a five-year transitional period. According to the *Notice of the State Council on the Implementation of the Transitional Preferential Policy in respect of Enterprise Income Tax* (國務院關於實施企業所得稅過渡優惠政策的通知) which was promulgated on 26 December 2007, such enterprises will continue to enjoy the lower tax rate before they are gradually subject to the tax rate of 25% within the transitional period. In particular, enterprises which were subject to an EIT rate of 15% would be subject to an EIT rate of 18% in 2008, and would be increased to 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012. Enterprises which are enjoying two years of 100% exemption and three years of 50% reduction on tax payments may continue to enjoy such exemption and reduction until the term of such privilege expires.

According to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (the "Hong Kong Tax Treaty") promulgated on 4 April 2007, if the beneficiary of dividends is a Hong Kong tax resident which holds directly at least 25% equity interests in a tax resident enterprise in China, the dividends distributed by the tax resident enterprise in the mainland to its Hong Kong shareholder shall be subject to taxes in China at a rate not higher than 5%. According to the *Notice of the State Administration of Taxation on Issues regarding the Administration of the Dividend Provision in Tax Treaties* (國家稅務總局關於執行稅收協定股息條款有關問題的通知) (the "Notice 81") promulgated on 20 February 2009, to apply the dividend provision in relevant tax treaties, including the Hong Kong Tax Treaty, certain requirements shall be satisfied, among which: (i) the taxpayer shall be the beneficial owner of relevant dividends; and (ii) for corporate recipients that enjoy the tax treatment under the relevant tax treaties as direct owners of a certain proportion of the share capital of a PRC enterprise (usually such certain proportion shall be 25% or 10%), such corporate recipients must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. Furthermore, the State Administration of Taxation (國家稅務總局)(SAT) promulgated the *Notice on How to Understand and Recognise the Beneficial Owner in Tax Treaties* (國家稅務總局關於如何理解和認定稅收協定中"受益所有人"的通知) on 27 October 2009, which defines the "beneficial owner" as individuals, enterprises or other organizations normally engaged in substantive operations and sets forth certain adverse factors on the recognition of such "beneficial owner." On 24 August 2009, the SAT issued the *Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation)* (非居民享受稅收協定待遇管理辦法(試行)) (the "Administrative Measures"), which became effective on 1 October 2009 and requires that the non-resident enterprises shall obtain relevant approval before enjoying the treatments under tax treaties from the competent tax authorities.

Value-added tax

All entities and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC shall pay VAT in accordance with the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) (the "Provisional Regulations on VAT") and its implementation rules. The Provisional Regulations on VAT was promulgated by the State Council of the PRC which became effective on 1

January 1994 and amended on 5 November 2008. Pursuant to the Provisional Regulations on VAT and its implementation rules, VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% or 13% depending on the product type. All our PRC subsidiaries are subject to a value-added tax rate of 17%.

The regulatory requirements relating to the Reorganisation and the Listing

Please refer to section headed "History, Reorganisation and Group Structure — PRC Regulatory Issues Relating to the Reorganisation and the Listing" for further details of regulatory requirements relating to the Reorganisation and the Listing and our compliance with such requirements.

OUR CORPORATE HISTORY

Hubei Golden Three Gorges, our principal operating subsidiary, was established in the PRC in 1992. Our Controlling Shareholder, Chairman and executive Director, Mr. Yang, indirectly acquired the controlling interest in Hubei Golden Three Gorges in 2001. Through a number of acquisitions and share transfers, and before our Reorganisation, each of Mr. Yang and Mr. Feng, through a number of companies which are under their respective control, owned 76.715% and 6.145% effective interest in Hubei Golden Three Gorges, respectively.

Mr. Yang has been a businessmen in the PRC since 1980s and he commenced to develop business relationships with a number of tobacco manufacturers in the PRC in around 1989. In 2001, Mr. Yang was invited to invest in Hubei Golden Three Gorges to cooperate developing cigarette packaging materials in the PRC and Mr. Yang, being confident in the prospects of the market, invested in Hubei Golden Three Gorges with his own capital accumulated from his other businesses in the past years.

Please refer to section headed "Business — Business development milestones" in this prospectus for our Group's material corporate and business development milestones.

Details of the members of our Group and their respective corporate history are set out below.

OUR COMPANY

Our Company was incorporated in the Cayman Islands on 5 August 2013. Upon completion of the Reorganisation, our Company became the holding company of our Group on 30 April 2014, details of which are set out in the paragraph headed "Reorganisation" in this section.

OUR MAJOR OPERATING SUBSIDIARIES

Hubei Golden Three Gorges

Acquisition by Mr. Yang

Hubei Golden Three Gorges was established in Yichang, Hubei Province, the PRC on 15 August 1992 as a sino-foreign equity joint venture by Dangyang Tobacco Factory (當陽卷煙廠) (which had later been merged into Hubei Three Gorges, the minority equity holder of Hubei Golden Three Gorges) and Tai Sang Industrial Company Limited (an Independent Third Party save for being a former equity holder of Hubei Golden Three Gorges). There were certain equity transfers undertaken by these former equity holders, and until immediately before the founding of our Group in 2001 when Mr. Yang indirectly acquired equity interests in Hubei Golden Three Gorges, the equity holders of Hubei Golden Three Gorges were Yichang Three Gorges and Mansitun International Tobaccos Limited, as to 51% and 49% respectively. Yichang Three Gorges was owned as to 84% by Hubei Three Gorges and 16% by Hubei Yuyang Huaxian Technology Company Limited (湖北玉陽化纖科技股份有限公司) ("**Hubei Yuyang**"), whose equity holders included, among others, Hubei Three Gorges. Save as aforesaid, Yichang Three Gorges is not related to Mr. Yang and his associates. Mansitun International Tobaccos Limited is a company incorporated in Hong Kong, and save for being a former equity holder of Hubei Golden Three Gorges, is an Independent Third Party.

Pursuant to an equity transfer agreement dated 8 March 2001 entered into between Mansitun International Tobaccos Limited (as vendor) and Yichang Three Gorges (as vendor), the then equity holders of Hubei Golden Three Gorges, Festiva (as purchaser) and Medicon (as purchaser), (i) Mansitun International Tobaccos Limited transferred its 28% and 21% unpaid equity interest in Hubei Golden Three Gorges to Festiva and Medicon, respectively; and (ii) Yichang Three Gorges transferred its 6% unpaid equity interest in Hubei Golden Three Gorges to Medicon. No consideration was paid by the purchasers to the vendors for the said transfers as the equity interests transferred were not paid-up but Festiva and Medicon were required to pay up the relevant unpaid capital of Hubei Golden Three Gorges in the amount of RMB31,240,000, which was paid as to RMB16,434,985.34 by Festiva and Medicon by 30 May 2001 according to a capital verification report dated 16 July 2001. The remaining unpaid capital, together with other capital commitment required to be injected in Hubei Golden Three Gorges pursuant to various equity transfers before June 2003, had been fully paid up by Medicon and Maoming Changyin in stages in 2002 and 2003. The transfers of equity interests were in fact transfers of obligations to pay up the unpaid capital of Hubei Golden Three Gorges.

The Yichang Administration for Industry and Commerce (宜昌市工商行政管理局 (“**AIC**”)) approved the above transfer on 31 January 2002.

Set out below was the equity holding structure of Hubei Golden Three Gorges after the above transfers:

Name of equity holders	**Registered capital** *RMB*	*Percentage*
Yichang Three Gorges[Note 1]	25,560,000	45%
Festiva[Note 2]	15,904,000	28%
Medicon[Note 3]	15,336,000	27%
Total	56,800,000	100%

Notes:

1. At the time of the transfer, Yichang Three Gorges was owned as to 84% by Hubei Three Gorges and 16% by Hubei Yuyang, whose equity holders included, among others, Hubei Three Gorges. Yichang Three Gorges is not otherwise related to Mr. Yang and his associates.

2. At the time of the transfer, Festiva was owned approximately 99.99% by Mr. Yang and as to approximately 0.01% by Ms. Cai, the spouse of Mr. Yang.

3. At the time of the transfer, Medicon was owned as to 99% by Supreme Holdings Group Limited and owned as to 1% by Mr. Tam Man Hung, a friend of Mr. Yang and a former director of Hubei Golden Three Gorges who resigned in March 2009. Mr. Tam Man Hung held the 1% interest in Medicon on trust for Supreme Holdings Group Limited. Supreme Holdings Group Limited held the entire issued share capital of Medicon on trust for Mr. Yang. In June 2002, the 99% interest held by Supreme Holdings Group Limited in Medicon was transferred to Jia Shen, and the 1% interest held by Mr. Tam Man Hung in Medicon on trust for Supreme Holdings Group Limited was transferred to Mr. Yang Huafeng, relative of Mr. Yang, holding on trust for Jia Shen. Jia Shen was in turn owned as to 99.99% by Ms. Cai, spouse of Mr. Yang, and as to 0.01% by Mr. Yang Huafeng holding on trust for Ms. Cai. In October 2005, the 99.99% interest held by Ms. Cai in Jia Shen was transferred to Mr. Huang Li Bin, a friend of Mr. Yang and a former director of Hubei Golden Three Gorges and Dangyang Liantong who resigned in December 2010 and May 2012, respectively. Mr. Huang Li Bin held the interest in Jia Shen on trust for Ms. Cai. On 27 September 2010, the 99.99% interest held by Mr. Huang Li Bin in Jia Shen was transferred to Mr. Yang.

Major corporate history after acquisition by Mr. Yang in 2001 and up to 31 December 2009

After the aforesaid acquisitions by Mr. Yang in 2001 and up to 31 December 2009, a number of equity transfers and capital changes of Hubei Golden Three Gorges had taken place. Mr. Yang, together with his spouse Ms. Cai, remained holding an indirect controlling interest in Hubei Golden Three Gorges throughout the said period with an effective interest ranging from 55% to 81.06%.

(A) The Entrustment Arrangements

Throughout the period from 2001 up to immediately before the Reorganisation, Mr. Yang had held his interest in Hubei Golden Three Gorges through various intermediate holding companies, namely (i) Medicon; (ii) Festiva; (iii) Maoming Changyin; (iv) Maoming Jiachang; (v) Maoming Company; and (vi) Shenzhen Company (the "**Intermediate Company(ies)**"). Each of (i) Maoming Changyin; (ii) Maoming Jiachang; (iii) Maoming Company; and (iv) Shenzhen Company, being Intermediate Companies established in the PRC, was held by various individuals, namely (i) Mr. Li Shaoyong; (ii) Mr. Zhang Shiliang; (iii) Mr. Zhao Tongxin; (iv) Mr. Yang Huafeng; (v) Mr. Yang Cai; (vi) Mr. Yang Jingzhi; and (vii) Mr. Yang Huabian (collectively, the "**Entrusted Individuals**"), entrusted by Mr. Yang to hold the equity interests on behalf of Mr. Yang (the "**Entrustment Arrangements**"). The Entrusted Individuals comprised of individuals who were either Mr. Yang's relatives, employees of Hubei Golden Three Gorges or individuals with whom Mr. Yang has worked together as Mr. Yang's employees.

The Entrustment Arrangements were made by Mr. Yang for the following reasons: (i) in addition to our Group's business, Mr. Yang was engaged in a wide range of business ventures. For administrative and operational reasons, Mr. Yang has historically entrusted different individuals to hold and operate his various business interests; (ii) Mr. Yang's commencement of residence in Singapore in 2001, coupled with his need to travel overseas on a regular basis, resulted in a need for Mr. Yang to engage trusted individuals to hold and manage his various business interests and investments in the PRC; and (iii) at the time of his investment in Hubei Golden Three Gorges in 2001, most of Mr. Yang's funds were located in the PRC, for ease of administration, Mr. Yang therefore entrusted various PRC individuals to hold and manage his business interests and investments in the PRC. As advised by our PRC Legal Advisers, the Entrustment Arrangements were valid and legally binding on Mr. Yang and the Entrusted Individuals and did not contravene any applicable PRC law or regulation.

(B) Equity transfers and capital injections between/by Intermediate Companies up to 31 December 2009

After the aforesaid acquisitions by Mr. Yang in 2001 and up to 31 December 2009, there were various equity transfers between Intermediate Companies and capital injections made by Intermediate Companies, which took place for, inter alia, the following reasons:

1. passing the obligation of paying up the unpaid capital of Hubei Golden Three Gorges from Festiva to Medicon, which had cash to pay up the unpaid capital at the relevant time;

2. Maoming Changyin injected assets with an appraised value of approximately RMB17,650,000 into Hubei Golden Three Gorges, thereby paying up its own unpaid equity interest in Hubei Golden Three Gorges and taking up and paying up the obligations of Festiva and Medicon to pay up the unpaid capital in the total amount of approximately RMB8,900,000 and injecting extra capital in Hubei Golden Three Gorges in the amount of approximately RMB6,210,000. The equity holding percentages of Festiva, Medicon and Maoming Changyin were then adjusted according to their actual capital contribution to Hubei Golden Three Gorges. All unpaid capital of Hubei Golden Three Gorges were paid up fully through the said injection of assets and cash by 23 June 2003;

3. Mr. Yang's intention to hold the equity interest in Hubei Golden Three Gorges through a PRC company with a smaller registered capital, adjust the equity holdings of his Intermediate Companies established in the PRC and overseas, and the need to change the Entrusted Individuals because of resignation of such Entrusted Individuals as an employee of Mr. Yang;

4. injection of printing machine with an appraised value of approximately RMB8,250,000 by Maoming Jiachang to Hubei Golden Three Gorges; and

5. Mr. Yang's intention to use Hong Kong as his investment administration center.

As the Intermediate Companies were beneficially owned by Mr. Yang and/or his spouse, no consideration was paid for the equity transfers between the Intermediate Companies.

(C) Equity transfers taken place between Intermediate Companies and certain third parties and between certain third parties and capital injection by a third party from 2001 to 2009

There were various equity transfers between Intermediate Companies and certain third parties and between certain third parties and capital injection by a third party during the period from 2001 to 31 December 2009, which took place for, *inter alia*, the following reasons:

1. plan of the state-owned equity holder to reduce its investment in Hubei Golden Three Gorges and focus on its other business;

2. passing of state-owned assets by Hubei Golden Three Gorges' minority shareholder;

3. Mr. Yang's intention to reward Mr. Wan Yong, the former director and general manager of Hubei Golden Three Gorges, beneficial owner of 90% equity interest in Guangzhou Jingda (with the remaining 10% equity interest held by his wife), for his past contribution to our Group;

4. need of Hubei Golden Three Gorges of working capital;

5. the resignation of Mr. Wan Yong as director and general manager of Hubei Golden Three Gorges as Mr. Wan would like to realise his investment in Hubei Golden Three Gorges and concentrate in his other personal businesses; and

6. the wish of Mr. Yang to reward Mr. Feng for his past contributions to our Group by allowing Mr. Feng to acquire an interest in Hubei Golden Three Gorges through holding 25% interest in Maoming Company.

Immediately after the equity transfers that took place in April 2009, the equity holders of Hubei Golden Three Gorges were as follows, which remained unchanged until immediately before the Reorganisation:

Name of equity holders	**Registered capital** *RMB*	**Percentage**
Hubei Three Gorges	13,500,000	17.14%
Medicon	28,948,100	36.74%
Maoming Company *(Note 1)*	19,363,500	24.58%
Shenzhen Company *(Note 2)*	16,970,500	21.54%
Total	78,782,100	100%

Notes:

1. Mr. Yang Cai, a director of Hubei Golden Three Gorges, was entrusted by Mr. Yang to hold 75% equity interests in Maoming Company on behalf of Mr. Yang. The remaining 25% equity interests in Maoming Company was held by Mr. Feng.

2. Mr. Yang Jingzhi (who is a director of Hubei Golden Three Gorges) and Mr. Yang Huabian, both relatives of Mr. Yang, were entrusted by Mr. Yang to hold the entire equity interests in Shenzhen Company on behalf of Mr. Yang.

Minority Shareholder

As at the Latest Practicable Date, Hubei Three Gorges holds 17.14% equity interest in Hubei Golden Three Gorges. To the best knowledge of our Directors after making reasonable enquiries with representatives of each of Hubei Three Gorges and China Tobacco Hubei, and based on the confirmation letter issued by 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co., Ltd. Three Gorges Tobacco Factory), a branch company of China Tobacco Hubei, dated 9 December 2013: (i) China Tobacco Hubei has accounted for Hubei Three Gorges as its subsidiary in its financial statements; (ii) Hubei Three Gorges is managed by China Tobacco Hubei; (iii) the registered equity holder of Hubei Three Gorges, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration), is in the process of transferring the entire equity interest in Hubei Three Gorges to China Tobacco Hubei; and (iv) during the Track Record Period, dividends from Hubei Golden Three Gorges payable to Hubei Three Gorges were, pursuant to the latter's instructions, directly paid to 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co., Ltd. Three Gorgres Tobacco Factory), a branch company of China Tobacco Hubei. On the basis of the foregoing, although 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges, the Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges.

Equity transfers as part of the Reorganisation

As part of the Reorganisation:

(1) Easy Creator entered into an equity transfer agreement with each of Medicon, Shenzhen Company and Maoming Company dated 15 May 2013, pursuant to which Medicon, Shenzhen Company and Maoming Company agreed to transfer their respective equity interests of 36.74%, 21.54% and 18.435% in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB47,364,947.72, RMB27,767,159.74 and RMB23,762,045.08, respectively, which were determined with reference to the net asset value of Hubei Golden Three Gorges as at 31 December 2012 after deduction of the dividend payable to the equity owners of Hubei Golden Three Gorges before the equity transfers and in proportion to the corresponding shareholding of each of the then equity holders. The considerations were fully settled before the Latest Practicable Date;

(2) Yichang Company entered into an equity transfer agreement with Maoming Company dated 25 July 2013, pursuant to which Maoming Company agreed to transfer its 6.145% equity interest in Hubei Golden Three Gorges to Yichang Company at a consideration of RMB7,920,681.69, which was determined with reference to the net asset value of Hubei Golden Three Gorges as at 31 December 2012 after deduction of the dividend payable to the equity owners of Hubei Golden Three Gorges before the equity transfer and in proportion to the corresponding shareholding of each of the then equity holders. The consideration was fully settled before the Latest Practicable Date; and

(3) Easy Creator entered into an equity transfer agreement with Yichang Company dated 10 August 2013, pursuant to which Yichang Company agreed to transfer its 6.145% equity interest in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB7,920,681.69, which was determined with reference to the net asset value of Hubei Golden Three Gorges as at 31 December 2012 after deduction of the dividend payable to the equity owners of Hubei Golden Three Gorges before the equity transfer and in proportion to the corresponding shareholding of each of the then equity holders. The consideration was fully settled before the Latest Practicable Date.

After the aforesaid transfers of equity interests, the equity holding structure of Hubei Golden Three Gorges was as follows:

Name of equity holders	Registered capital	
	RMB	*Percentage*
Easy Creator	65,282,100	82.86%
Hubei Three Gorges	13,500,000	17.14%
Total	78,782,100	100%

Our PRC Legal Advisers confirmed that the registered capital of Hubei Golden Three Gorges had been verified by certified public accountants in the PRC as being fully paid up, and the establishment, equity transfers and capital injections as described above had been approved by relevant competent authorities and were legally valid and effective.

Dangyang Liantong

Establishment of Dangyang Liantong

Dangyang Liantong was established as a sino-foreign equity joint venture with limited liability in the PRC on 12 May 2004 with a registered capital of RMB40,000,000. Set out below was the equity holding structure of Dangyang Liantong at the time of its establishment:

Name of equity holders	Registered capital	
	RMB	*Percentage*
Hubei Golden Three Gorges	30,000,000	75%
Shanghai Asia Company Pte. Ltd. ("**Shanghai Asia**")	6,800,000	17%
Medicon	3,200,000	8%
Total	40,000,000	100%

Shanghai Asia was wholly-owned by Shanghai Asia Holdings Limited, a company listed on the Singapore Exchange Securities Trading Limited at the relevant time. Save for being a former equity holder of Dangyang Liantong, Shanghai Asia and its ultimate beneficial owners were Independent Third Parties.

Equity transfer in May 2012

Due to Shanghai Asia's intention to withdraw its investment in Dangyang Liantong due to its unwillingness to invest more capital into Dangyang Liantong and Mr. Yang's intention to increase his investment in cigarette packaging business, Shanghai Asia and Medicon entered into an equity transfer agreement dated 11 May 2012 pursuant to which Shanghai Asia transferred its 17% equity interest in Dangyang Liantong to Medicon at a consideration of RMB5,300,000, which was settled on 8 May 2013. The said consideration was determined with reference to Shanghai Asia's original investment in Dangyang Liantong and the dividends paid to Shanghai Asia during the period from 2004 to 2012.

Set out below was the equity holding structure of Dangyang Liantong after the said transfer and immediately before Reorganisation:

Name of equity holders	Registered capital	
	RMB	*Percentage*
Hubei Golden Three Gorges	30,000,000	75%
Medicon	10,000,000	25%
Total	40,000,000	100%

Equity transfer as part of the Reorganisation

As part of the Reorganisation, Easy Creator entered into an equity transfer agreement with Medicon dated 15 May 2013, pursuant to which Medicon agreed to transfer its equity interest of 25% in Dangyang Liantong to Easy Creator at a consideration of RMB11,842,282.56 which was determined with reference to the net asset value of Dangyang Liantong as at 31 December 2012 after deduction of the dividend payable to the equity owners of Dangyang Liantong before the equity transfer and in proportion to the corresponding shareholding of each of the then equity holders. The consideration was fully settled before the Listing.

After the aforesaid transfer of equity interest, the equity holding structure of Dangyang Liantong was as follows:

Name of equity holders	Registered capital	
	RMB	*Percentage*
Hubei Golden Three Gorges	30,000,000	75%
Easy Creator	10,000,000	25%
Total	40,000,000	100%

Our PRC Legal Advisers confirmed that the registered capital of Dangyang Liantong had been verified by certified public accountants in the PRC as being fully paid up and the establishment and equity transfers as described above had been approved by relevant competent authorities and were legally valid and effective.

DISPOSAL OF SUBSIDIARY

Hubei Mengke

Establishment of Hubei Mengke

Hubei Mengke was established as a sino-foreign equity joint venture with limited liability in the PRC on 13 June 2005 with a registered capital of RMB5,000,000. As Hubei Mengke was principally engaged in the production and sale of paper, which was different from the business focus of our Group and Hubei Mengke required relatively large working capital, we disposed of our 75% interest in Hubei Mengke. Hubei Mengke ceased to be a subsidiary of Hubei Golden Three Gorges since 1 February 2013 when the disposal of 70% interest held by Hubei Golden Three Gorges was completed, and we ceased to have any interest in it since 18 July 2013 when the further disposal of 5% held by Hubei Golden Three Gorges was completed. The results from the discontinued operation and impact of disposal on our Group upon disposal of Hubei Mengke are detailed in "Note 13 — Discontinued operation" and "Note 26 — Disposal of subsidiaries" in the Accountants' Report set out in Appendix I to this prospectus.

Hubei Mengke was one of the top five suppliers during the Track Record Period.

Set out below was the equity holding structure of Hubei Mengke at the time of its establishment:

Name of equity holders	Registered capital *RMB*	*Percentage*
Hubei Golden Three Gorges	3,750,000	75%
Medicon	1,250,000	25%
Total	5,000,000	100%

Capital Injections in 2007 and 2008

In December 2007 and December 2008, each of Hubei Golden Three Gorges and Medicon increased their capital contribution in Hubei Mengke by an aggregate of RMB19,000,000, thereby increasing the registered capital of Hubei Mengke from RMB5,000,000 to RMB24,000,000.

Set out below was the equity holding structure of Hubei Mengke after the above increases in capital:

Name of equity holders	Registered capital *RMB*	*Percentage*
Hubei Golden Three Gorges	18,000,000	75%
Medicon	6,000,000	25%
Total	24,000,000	100%

Equity transfer in relation to disposal

As Hubei Mengke has all along been principally engaged in the production, processing and sales of high-grade paper, paper board and plastic business and is not engaged in other business, it has a different business model from that of our Group. As Hubei Golden Three Gorges intended to concentrate on cigarette packaging business, the board of directors of Hubei Golden Three Gorges passed a board resolution in February 2012 for the proposed disposal of 70% interest in Hubei Mengke. After an auction held on 12 November 2012, Hubei Golden Three Gorges and Zhuhai Company entered into an equity transfer agreement dated 12 November 2012, pursuant to which Hubei Golden Three Gorges transferred its 70% equity interest in Hubei Mengke to Zhuhai Company at a consideration of RMB22,000,000. The said consideration was determined through the auction and was settled on 20 November 2012.

Zhuhai Company, as the borrower, entered into a loan agreement with Ms. Cai Yaoqiong, the sister of Ms. Cai, as the lender, for a sum of RMB6,000,000 on 7 November 2012 for the purpose of payment of the deposit required for the auction to Hubei Golden Three Gorges. The sum was repaid by Zhuhai Company to Ms. Cai Yaoqiong on 27 November 2013.

Hubei Mengke ceased to be a subsidiary of Hubei Golden Three Gorges since February 2013 when the aforesaid disposal of 70% interest was completed. Set out below was the equity holding structure of Hubei Mengke after the above transfer:

Name of equity holders	**Registered capital**	
	RMB	*Percentage*
Zhuhai Company	16,800,000	70%
Medicon	6,000,000	25%
Hubei Golden Three Gorges	1,200,000	5%
Total	24,000,000	100%

Zhuhai Company and its ultimate beneficial owners were Independent Third Parties.

Equity transfers as part of the Reorganisation

As Hubei Mengke has all along been principally engaged in the production, processing and sales of high-grade paper, paper board and plastic business and is not engaged in other business, it has a different business model from that of our Group and Hubei Golden Three Gorges intended to concentrate on cigarette packaging business, as part of the Reorganisation, Hubei Golden Three Gorges (as vendor) entered into an equity transfer agreement with Zhuhai Company (as purchaser) and Medicon dated 27 April 2013 (which was supplemented by an agreement entered into between the parties dated 20 May 2013), pursuant to which Hubei Golden Three Gorges agreed to transfer its 5% equity interest in Hubei Mengke to Zhuhai Company, an Independent Third Party, at a consideration of RMB1,658,429.03, which was determined with reference to (i) the consideration for the transfer of 70% equity interest in Hubei Mengke which took place in November 2012 (the "70% Transfer"), which was in turn determined by way of auction; and (ii) net profit of Hubei Mengke, corresponding to the 5%

interest in Hubei Mengke, generated from November 2012 to May 2013. The consideration was settled on 9 June 2013. Hubei Golden Three Gorges ceased to have any interest in Hubei Mengke since July 2013 when the further disposal of 5% interest was completed.

In order to focus on his business interest in our Group, Mr. Yang decided to dispose of his 25% interest in Hubei Mengke through Medicon. Medicon entered into an equity transfer agreement dated 8 June 2013 with Prime Vantage International Limited ("Prime Vantage"), which was wholly-owned by Mr. Tam Man Hung, pursuant to which Medicon agreed to transfer its 25% interest in Hubei Mengke to Prime Vantage for a consideration of RMB6,570,000. The consideration was determined and agreed between the parties after arm's length negotiation, with reference to amongst others, the amount of consideration for the 70% Transfer, which was in turn determined by way of auction. Save that Mr. Tam Man Hung was a director of Hubei Golden Three Gorges from March 2001 to April 2004 and from November 2005 to March 2009 and had acted as a trustee holding 1% interest in Medicon for and on behalf of Supreme Holdings Group Limited (which in turn held the entire issued share capital of Medicon on trust for Mr. Yang), each of Prime Vantage and Mr. Tam Man Hung is an Independent Third Party. The consideration was settled on 16 August 2013.

Our PRC Legal Advisers confirmed that the aforesaid transfers had been approved by relevant competent authorities and were legally valid and effective. After the aforesaid transfers, our Group and Medicon ceased to have any interest in Hubei Mengke.

DEREGISTRATION OF SUBSIDIARY

Shenzhen Creative

Establishment of Shenzhen Creative

Shenzhen Creative was established as a company with limited liability in the PRC on 17 May 2004 with a registered capital of RMB2,000,000. Shenzhen Creative was engaged in the packaging design business at the time of its establishment.

Set out below was the equity holding structure of Shenzhen Creative at the time of its establishment:

Name of equity holders	**Registered capital** *RMB*	*Percentage*
Hubei Golden Three Gorges	1,200,000	60%
Beijing Creative Village Marketing Planning Co., Ltd.	800,000	40%
Total	2,000,000	100%

Save for being a former equity holder of Shenzhen Creative, Beijing Creative Village Marketing Planning Co., Ltd. and its ultimate beneficial owners were Independent Third Parties.

Shenzhen Creative was intended by Mr. Yang to serve as the packaging design center of our Group at the time of its establishment. However, the plan was not as efficient as expected and thus the packaging design business was shifted back to Hubei Golden Three Gorges and Shenzhen Creative ceased to have any business operation thereafter. Shenzhen Creative did not participate in the 2009 annual inspection and as a result of failing to participate in the 2009 annual inspection within the prescribed period, the business license of Shenzhen Creative was revoked on 16 January 2012. Shenzhen Creative then made application for deregistration and on 12 August 2013 the deregistration of Shenzhen Creative was approved by the relevant government authority.

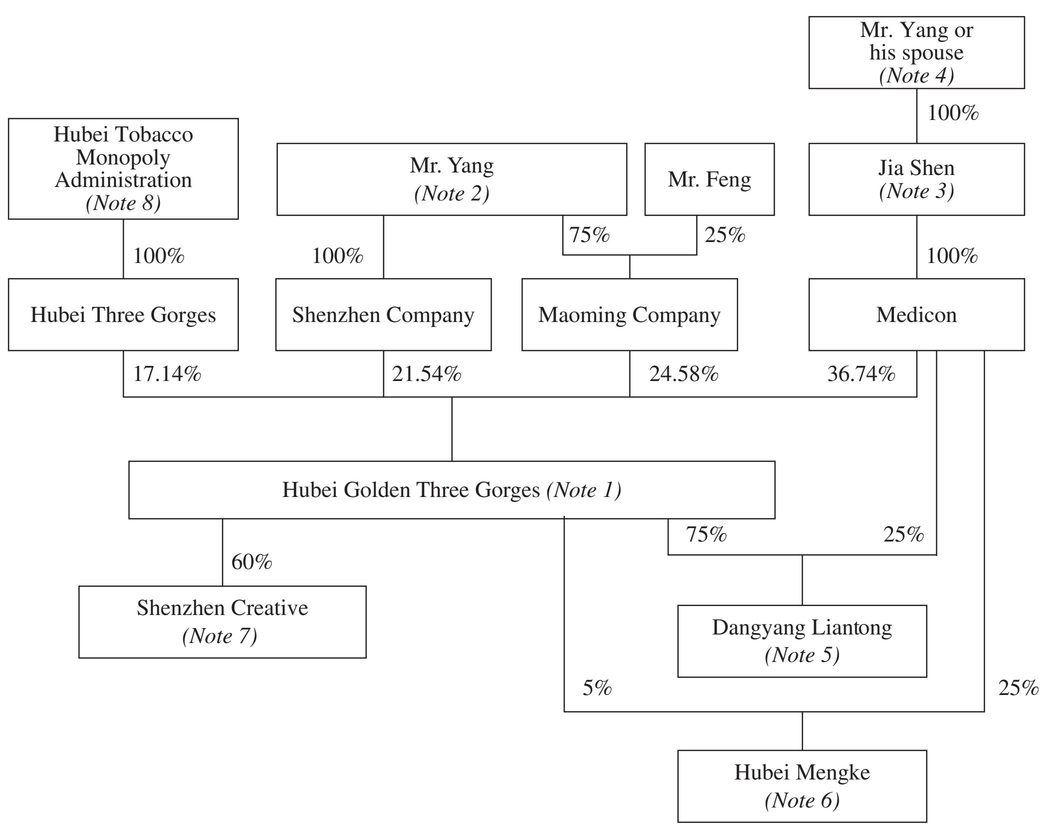
REORGANISATION

We completed the Reorganisation on 30 April 2014 in preparation for the Listing, pursuant to which our Company became holding company of our Group, and Mr. Yang and Mr. Feng, through their personal companies, held 93.05% and 6.95% interest in our Company, respectively. Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" set out in Appendix V to this prospectus.

Our PRC Legal Advisers confirmed that our Group has obtained all necessary approvals, consents, licences and permits and has effected all necessary filings or recordation under the relevant PRC laws and regulations in connection with the Reorganisation.

THE CORPORATE STRUCTURE OF OUR GROUP

We set out below the corporate structure of our Group immediately before the Reorganisation:



Notes:

1. Hubei Golden Three Gorges's scope of business is the production and operation of color printing products, cigarette and other trademarks; production and selling of novel drug packaging materials, production and sales; printing process, printing technology research and development.

2. As confirmed by each of Mr. Yang Jingzhi and Mr. Yang Huabian, (i) Mr. Yang Jingzhi was entrusted by Mr. Yang to hold the 70% equity interest in Shenzhen Company on behalf of Mr. Yang; and (ii) Mr. Yang Huabian was entrusted by Mr. Yang to hold the 30% equity interest in Shenzhen Company on behalf of Mr. Yang. As confirmed by Mr. Yang Cai, Mr. Yang Cai was entrusted by Mr. Yang to hold the 75% equity interest in Maoming Company on behalf of Mr. Yang. Hence, Mr. Yang was the beneficial owner of 100% and 75% equity interest of Shenzhen Company and Maoming Company respectively. As advised by our PRC Legal Advisers, such entrustment arrangements were legally binding and valid under PRC laws and regulations.

3. From the commencement of the Track Record Period up to 4 July 2013, Medicon was owned as to 99% by Jia Shen and was owned as to 1% by Mr. Yang Huafeng (who was holding the 1% shareholding on trust for Jia Shen). On 5 July 2013, Mr. Yang Huafeng transferred the said 1% shareholding in Medicon to Mr. Yang (who holds the 1% shareholding on trust for Jia Shen).

4. Mr. Yang Huafeng is holding 0.01% interest in Jia Shen on trust for Ms. Cai, the spouse of Mr. Yang. The remaining 99.99% interest in Jia Shen was held by Mr. Yang immediately before the Reorganisation.

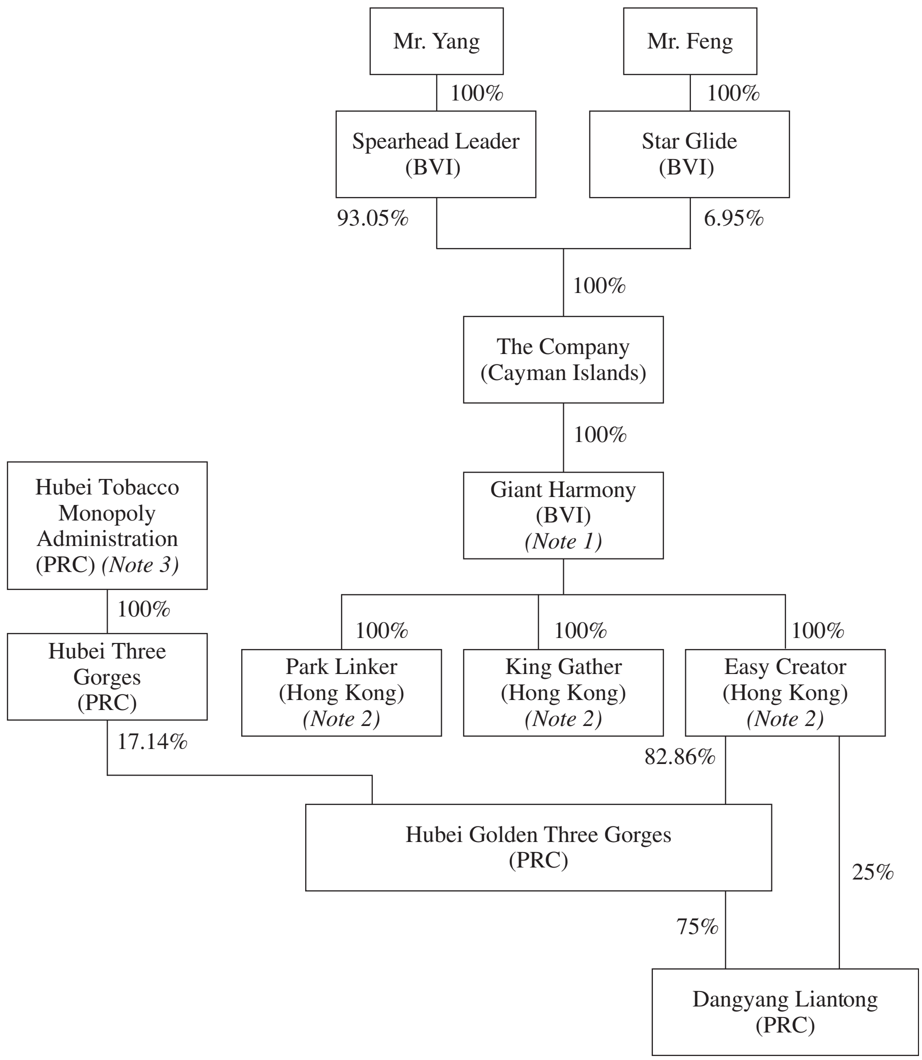
5. Dangyang Liantong's scope of business is the production and operation of color printing products, cigarette trademarks and other trademarks printing.

6. Hubei Mengke's scope of business is production, processing and sales of high quality paper, cardboard and plastic products. The remaining 70% equity interest in Hubei Mengke was owned by Zhuhai Company. Zhuhai Company and its ultimate beneficial owners were Independent Third Parties.

7. Shenzhen Creative had no operation during the Track Record Period and was deregistered on 12 August 2013. The remaining 40% equity interest in Shenzhen Creative was owned by Beijing Creative Village Marketing Planning Co., Ltd. Save for being a former equity holder of Shenzhen Creative, Beijing Creative Village Marketing Planning Co,. Ltd. and its ultimate beneficial owners were Independent Third Parties.

8. To the best knowledge of our Directors after making reasonable enquiries with representatives of each of Hubei Three Gorges and China Tobacco Hubei, and based on the confirmation letter issued by 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory, a branch company of China Tobacco Hubei) dated 9 December 2013: (i) China Tobacco Hubei has accounted for Hubei Three Gorges as its subsidiary in its financial statements; (ii) Hubei Three Gorges is managed by China Tobacco Hubei; (iii) the registered equity holder of Hubei Three Gorges, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration), is in the process of transferring the entire equity interest in Hubei Three Gorges to China Tobacco Hubei; and (iv) during the Track Record Period, dividends from Hubei Golden Three Gorges payable to Hubei Three Gorges were, pursuant to the latter's instructions, directly paid to 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory), a branch company of China Tobacco Hubei. On the basis of the foregoing, although 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges, our Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges.

We set out below the corporate structure of our Group after completion of the Reorganisation but immediately before the Share Offer:



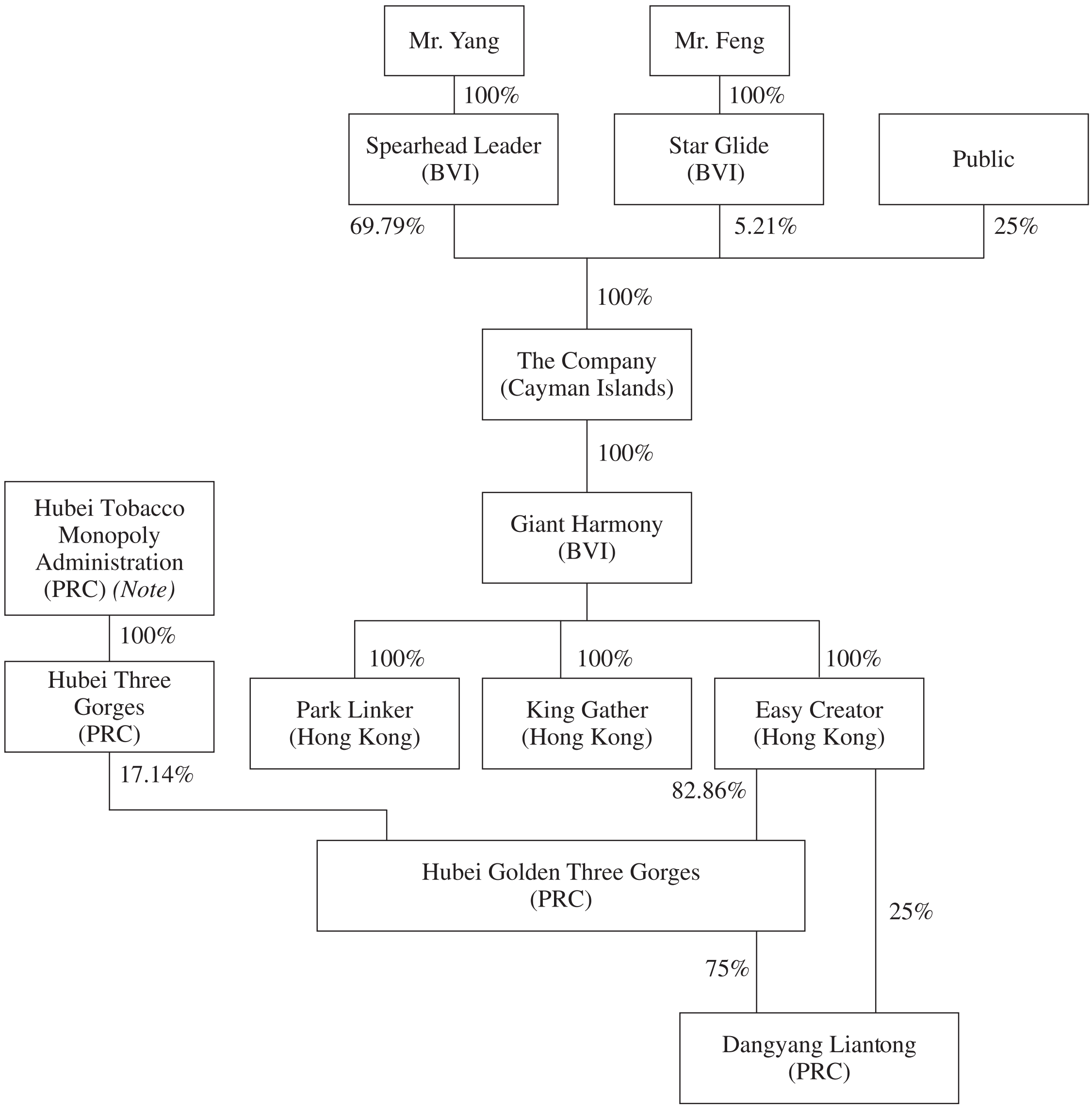
Notes:

1. Giant Harmony is an investment holding company.

2. Park Linker, King Gather and Easy Creator will be used for administrative purposes.

3. To the best knowledge of our Directors after making reasonable enquiries with representatives of each of Hubei Three Gorges and China Tobacco Hubei, and based on the confirmation letter issued by 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory, a branch company of China Tobacco Hubei) dated 9 December 2013: (i) China Tobacco Hubei has accounted for Hubei Three Gorges as its subsidiary in its financial statements; (ii) Hubei Three Gorges is managed by China Tobacco Hubei; (iii) the registered equity holder of Hubei Three Gorges, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration), is in the process of transferring the entire equity interest in Hubei Three Gorges to China Tobacco Hubei; and (iv) during the Track Record Period, dividends from Hubei Golden Three Gorges payable to Hubei Three Gorges were, pursuant to the latter's instructions, directly paid to 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory, a branch company of China Tobacco Hubei). On the basis of the foregoing, although 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges, our Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges.

We set out below the corporate structure of our Group after completion of the Reorganisation and immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme):



Note: To the best knowledge of our Directors after making reasonable enquiries with representatives of each of Hubei Three Gorges and China Tobacco Hubei, and based on the confirmation letter issued by 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory, a branch company of China Tobacco Hubei) dated 9 December 2013: (i) China Tobacco Hubei has accounted for Hubei Three Gorges as its subsidiary in its financial statements; (ii) Hubei Three Gorges is managed by China Tobacco Hubei; (iii) the registered equity holder of Hubei Three Gorges, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration), is in the process of transferring the entire equity interest in Hubei Three Gorges to China Tobacco Hubei; and (iv) during the Track Record Period, dividends from Hubei Golden Three Gorges payable to Hubei Three Gorges were, pursuant to the latter's instructions, directly paid to 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory, a branch company of China Tobacco Hubei). On the basis of the foregoing, although 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges, our Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION AND THE LISTING

Our PRC Legal Advisers have advised that Hubei Golden Three Gorges was established before the effective date of the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") and has been a sino-foreign equity joint venture enterprise since then. Accordingly, the M&A Rules are not applicable to the Reorganisation and the Listing and the Reorganisation and the Listing is not subject to the approval from the China Securities Regulatory Commission (中國證券監督管理委員會).

Pursuant to SAFE Circular No. 75, PRC residents are required to register with the local SAFE branch before establishing or controlling any company outside of the PRC for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an "offshore special purpose company". According to our PRC Legal Advisers, as Mr. Yang, the Controlling Shareholder has been a foreigner and is not an individual referred to in the "Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting of Foreign Exchange Administration Policies of Foreign Direct Investment" (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) issued by SAFE, Mr. Yang is not subject to the registration process under the SAFE Circular No. 75. Mr. Feng, on the other hand, as a PRC resident, is required to register with the local SAFE branch. On 12 August 2013, Mr. Feng completed the registration process under the SAFE Circular No. 75.

In 2013, our Group ceased its paper production business that was carried out by Hubei Mengke, i.e. the discontinued operation. Please refer to Note 13 and Note 14 to the Accountants' Report set out in Appendix I to this prospectus for details of our discontinued operation and its financial performance. Unless otherwise specified, our financial information disclosed in this prospectus only includes our Continuing Operations.

OVERVIEW

Paper cigarette packages

We are principally engaged in the design, manufacture and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC. Our principal operating subsidiary, Hubei Golden Three Gorges, has been established in the PRC for over two decades. Our history can be traced back to 2001 when our Controlling Shareholder, Chairman and executive Director, Mr. Yang, beneficially acquired a controlling stake in Hubei Golden Three Gorges. We have accumulated over 20 years of experience in the industry and established strong business relationship with our major customers.

We manufacture various types of paper cigarette packages for our customers, which can be broadly divided into (i) hard and soft cigarette packets; (ii) cigarette cartons; and (iii) gift sets designed to pack and carry various numbers of cigarette packets. All of the sales of our paper cigarette package products are made to customers in the PRC. According to the Euromonitor Report, our Group had a national market share of approximately 1.5% in 2013.

Our revenue has been growing steadily during the Track Record Period. Revenue from our five largest customers (which were cigarette manufacturers or paper cigarette packages manufacturer) in aggregate contributed approximately 69.3%, 57.9% and 59.6% of our total revenue for the three years ended 31 December 2011, 2012 and 2013, respectively.

Our paper cigarette packages customers

Set out below are some of the prominent cigarette brands in the PRC for whom we manufactured paper cigarette packages on a non-exclusive basis:

Brand names	Cigarette manufacturers
Pride (嬌子)*	China Tobacco Chuanyu
Haomao (好貓)*, Houwang (猴王)	China Tobacco Shaanxi
Yunyan (雲煙)*, Yuxi (玉溪)*, Honghe (紅河)*, Hongtashan (紅塔山)*	China Tobacco Yunnan
Hongjinlong (紅金龍)	China Tobacco Hubei
Baisha (白沙)*	China Tobacco Hunan
Huangguoshu (黃果樹)*	China Tobacco Guizhou
Septwolves (七匹狼)*, Golden Bridge (金橋)*	China Tobacco Fujian
Taishan (泰山)*, Hatamen (哈德門)	China Tobacco Shandong
Hongqiqu (紅旗渠), Huangjinye (黃金葉)	China Tobacco Henan
Diamond (鑽石)*	China Tobacco Hebei
Haorize (好日子)	Shenzhen Tobacco Industrial
Reishi (林海靈芝)	Heilongjiang Tobacco Industrial
Daqingshan (大青山)	Inner Mongolia Kunming Cigarettes

* The Key Cigarette Brands identified by STMA

The PRC cigarette market is monopolised by the PRC government, primarily STMA and CNTC. Amongst the 26 cigarette manufacturers in the PRC, 16 of them are Provincial Tobacco Industrial Companies, nine of them are non-provincial companies from the China Tobacco Industry Development Center and one tobacco corporation, Shanghai Tobacco. During the Track Record Period, we manufactured paper cigarette packages for ten Provincial Tobacco Industrial Companies and five non-provincial companies from the China Tobacco Industry Development Center. As at the Latest Practicable Date, we are one of the approved suppliers of all of these 15 cigarette manufacturers.

Our social product paper packages customers

Leveraging on our expertise in paper cigarette packages, we also commenced production of social product paper packages for drugs and medicines, liquor and alcoholic beverages, food and other social products in 2005. During the Track Record Period, our major customers of these social products included major brands such as Jing Brand (勁牌). We design and produce colour boxes, labels, gift sets and paper bags for our customers in different industries according to their specific product image design and package requirements.

Discontinued operation

In February 2013, we completed the disposal of our 70% equity interest in Hubei Mengke, a subsidiary engaged in the production, processing and sales of high-grade paper, paper board and plastic business. In July 2013, we completed the disposal of our remaining 5% equity interest in Hubei Mengke and therefore disposed of all our equity interest in Hubei Mengke. As Hubei Mengke was our only subsidiary that carried out our paper production business, our paper production business was considered discontinued operation after the disposal of our entire equity interest in Hubei Mengke.

Our production facilities

Our self-owned production bases are located at our Yichang Factory and our Dangyang Factory. In addition to production, our Yichang Factory also carries out design and research and development for our paper package products.

BUSINESS DEVELOPMENT MILESTONES

The following sets out our business development milestones:

Year	Business development milestones
1992	Established Hubei Golden Three Gorges, the principal operating subsidiary of our Group.
2001	Commenced operation of the Yichang Factory.
2002	Admitted as an approved supplier of China Tobacco Shaanxi and commenced production of paper cigarette packages for its brands, including Houwang (猴王) and Haomao (好猫).
2003	Admitted as an approved supplier of Chengdu Cigarette Factory (成都卷煙廠) of China Tobacco Chuanyu and commenced production of paper cigarette packages for its brands, including Pride (嬌子).
2004	Established our second principal operating subsidiary, Dangyang Liantong, a principal operating subsidiary of our Group, which operates the Dangyang Factory.
	Admitted as an approved supplier of Xinjiang Cigarette Factory (新疆卷煙廠).
2006	Admitted as an approved supplier of each of China Tobacco Guizhou and China Tobacco Henan.
	Commenced production of paper cigarette packages for Yuxi (玉溪) brand of Hongta Group.
2007	Admitted as an approved supplier of Hongyun Honghe Tobacco and China Tobacco Fujian.
2009	Admitted as an approved supplier of each of China Tobacco Shandong, China Tobacco Hunan and Heilongjiang Tobacco Industrial.
2010	Commenced production of paper cigarette packages for Hongtashan (紅塔山) brand.
	Admitted as an approved supplier of Shenzhen Tobacco Industrial and commenced production of paper cigarette packages for its Haorizi (好日子) brand.

Year	Business development milestones
	Admitted as an approved supplier of Inner Mongolia Kunming Cigarettes and commenced production of paper cigarette packages for its Daqingshan (大青山) brand.
2011	Commenced production of paper cigarette packages for China Tobacco Yunnan's Honghe (紅河) and Yunyan (雲煙) brands.
	Commenced production of paper cigarette packages for Baisha (白沙) brand which were co-produced by China Tobacco Hunan and China Tobacco Shandong.
2012	Won the tender for the production of paper cigarette packages for six brands which were designed by us, including Huangjinye (黃金葉) and Septwolves (七匹狼).
2013	Won the tender for the production of paper cigarette packages for nine brands which were designed by us, including Golden Bridge (金橋).

COMPETITIVE STRENGTHS

Our Directors consider that we possess the following competitive strengths:

We are committed to product design and technology development

Our Group places strong emphasis on product design and technology development. Instead of positioning ourselves as a mere manufacturer of paper cigarette packages, it is always our strategy to strive to be technically competitive by equipping ourselves with our own design and other research and development capabilities. Hubei Golden Three Gorges was recognised as a High Technology Enterprise (高新技術企業) by the Science and Technology Department of Hubei Province, Department of Finance of Hubei Province, Hubei Provincial Office, SAT and Hubei Local Taxation Bureau in 2009 and 2012.

We have professional and experienced technical personnel, who committed to brand research, creative planning, brand and new package design, promotion of new products, new technology and new skills. For further details, please refer to the paragraph headed "Product Research and Development" in this section.

Our product design capability

We have provided design and brand development services to our customers. Our designs have been approved and adopted for commercial production by various customers, including sub-brands of Pride (嬌子), Haomao (好貓), Houwang (猴王), Huangjinye (黃金葉) and Golden Bridge (金橋). Our design capability is also well recognised by other public bodies. A sub-brand of Yuxi (玉溪) and Haomao (好貓) were awarded the 中國十大煙標金獎 (Golden Award of the Top 10 Cigarette Packages in China*) by《中國招標 • 全球煙草包裝》in 2006 and 2008 respectively.

Our technology and research and development capability

Our technology center, which focuses on product design and technology advancement, has been awarded by Hubei Provincial Development and Reform Commission, Department of Finance of Hubei Province, Hubei Local Taxation Bureau and Wuhan Customs to be the provincial technology center of Hubei Province (省級技術中心) since November 2006. We endeavoured not only to provide a full integrated service combining brand development and positioning strategy, but to also implement more cost-effective and environmentally-friendly printing technology. During the Track Record Period, we have been active in conducting research and development projects and have built a portfolio of technologies and applications. As at the Latest Practicable Date, we have registered 21 patents, namely, 11 utility patents, eight design patents and two invention patents and other three invention patents are in the process of application. For details of our intellectual property rights, please refer to the section headed "Statutory and General Information — Intellectual property rights" set out in Appendix V to this prospectus. Our production technology and know-how have been successfully adopted in our production line and have strengthened our printing technology.

We believe our advanced technology center, together with our designs, research and development capabilities, distinguishes us from other cigarette packages providers and enhance our competitiveness.

We possess the essential comprehensive capabilities for tendering purpose

The cigarette industry in the PRC was subject to major restructuring in 2011, pursuant to which the tendering system, amongst other measures, was incorporated. In considering a tender, the customer will not only consider the price but also other factors under the scoring system of the tendering regime. For details regarding the tendering regime, please refer to the paragraph headed "Our Customers — Tendering system" in this section. While the tendering system has intensified competition within the industry, we believe we have successfully turned this into opportunities. We recorded revenue of RMB411.5 million, RMB411.4 million and RMB469.5 million the years ended 31 December 2011, 2012 and 2013, respectively, representing an increase by 14.1% from 2012 to 2013.

We believe our success in securing purchase orders from our customers after the implementation of the tendering process in 2011 is mainly attributable to our Group's comprehensive capabilities as follows:

Our position in the industry

We have been in the paper cigarette packages industry for over two decades, during which we have provided services to leading cigarette manufacturers in China. As at the Latest Practicable Date, ten out of the 16 Provincial Tobacco Industrial Companies and five out of the nine non-provincial companies from the China Tobacco Industry Development Center were our customers. For details, please refer to the paragraph below headed "We are an approved paper cigarette packages supplier of key cigarette brands in the PRC". Our position in the industry is also exemplified by the fact that we were invited to participate in the amendment to the PRC National Standards for Flexographic Decorating Printed Products (柔性版裝潢印刷品國家標準修改) in 2011.

Our design, research and development capabilities and accreditations

As stated in the above paragraph headed "We are committed to product design and technology development", we place strong emphasis on our product design and the research and development capabilities. Our technology center has been awarded to be the provincial technology center of Hubei Province (省級技術中心). In addition, we have also built up a sample making laboratory, which is equipped to facilitate our pre-printing, printing and post-printing processing work, in order to efficiently meet our customers' request on new product development.

Our product quality and stringent quality control

Our Directors believe that maintaining a strict and effective quality control system is the key to safeguarding our reputation for good product quality. We have implemented and maintained a set of quality management systems, procedures and standards. To ensure the quality and durability of our products, we are committed to imposing stringent inspection and testing procedures on equipment and machinery, raw materials and each stage of the production process. For further details of our quality control measures, please refer to the paragraph headed "Quality Control" in this section. During the Track Record Period, there were no material claims for compensation due to product flaws or defects.

Advanced machinery and equipment

We have invested in a wide range of equipment and machinery imported from overseas manufacturers, such as eight-colour offset printing machines from Germany, a ten-colour flexographic printing machine from Italy, a seven-colour gravure printing machine from Australia, a bronzing machine from Switzerland and a die-cutting machine from Germany. These advanced machinery and equipment helps us to maintain production efficiency and provide our Group with capabilities in meeting different requirements of our customers on paper cigarette package production. For details of our equipment and machinery, please refer to the paragraph headed "Production Facilities — Equipment and Machinery" in this section.

Our Directors believe that our technical know-how combined with advanced equipment and machinery enables our Group to produce high-end products that can meet our customers' requirements, to remain competitive in the paper cigarette packages industry and to accomodate the upgrading trend in cigarette market. Please refer to the section headed "Industry Overview — Cigarette packaging industry is expected to undergo the incoming consolidation" in this prospectus.

Through the tendering process with open and defined criteria, our customers are capable of considering our Group's full range of capabilities and as a result have repeatedly chosen us over our competitors under the tendering system.

We are an approved paper cigarette packages supplier of key cigarette brands in the PRC

The PRC cigarette industry is highly regulated. As a result of industry consolidation, only 26 cigarette manufacturers have remained in China since 2010, 16 of which are Provincial Tobacco Industrial Companies and nine are non-provincial companies from the China Tobacco Industry Development Center and one tobacco corporation, Shanghai Tobacco. As at the Latest Practicable

Date, ten of the 16 Provincial Tobacco Industrial Companies were our customers. Five out of the nine non-provincial companies from the China Tobacco Industry Development Center were also our customers. For the years ended 31 December 2011, 2012 and 2013, sales from these 15 customers accounted for approximately 92.8%, 82.0% and 91.8% of our total revenue respectively.

As a result of the efforts of our senior management and sales and marketing staff, we have been recognised as an approved supplier to, and have developed long-term relationships with all these 15 customers. In particular, our Group has supplied paper cigarette packages for more than ten years to China Tobacco Chuanyu, our largest customer for the year ended 31 December 2013 and which manufactures the Pride (嬌子) brand. Our Group has also supplied paper cigarette packages to China Tobacco Yunnan, which manufactures the Yuxi (玉溪), Hongtashan (紅塔山), Yunyan (雲煙) and Honghe (紅河) brand cigarettes, for over seven years. Our Directors believe that these long-term relationships play an important role under the existing tendering system and secure a stable customer network and revenue source. Our Directors believe these long-term relationships are crucial to the long-term business development and success of our Group.

In 2008, STMA identified the 30 Key Cigarette Brands. During the Track Record Period, our Group supplied paper cigarette packages for 15 of the 30 Key Cigarette Brands, including Yunyan (雲煙), Yuxi (玉溪), Hongtashan (紅塔山), Honghe (紅河), Baisha (白沙), Septwolves (七匹狼), Golden Bridge (金橋), Pride (嬌子), Taishan (泰山), Huanggoshu (黃果樹), Haomao (好貓), Diamond (鑽石), Huanghelou (黃鶴樓), Shuangxi (雙喜) and Double Happiness (紅雙喜). Our Directors believe that as an approved supplier to these key backbone cigarette brands, we are well-positioned to enjoy continued customer loyalty and consistent growth going forward.

Only those suppliers of paper cigarette packages which have passed the qualification certification process of the cigarette manufacturers are qualified to participate in such cigarette manufacturers' tenders. In light of the qualification approval process, our Directors believe that it is not easy for new suppliers to obtain sales from these major customers before they become approved suppliers of those customers. Our competitors are to a certain extent limited by this industry entry barrier.

We have an experienced and capable management team and operating staff with in-depth knowledge of the paper cigarette packages industry

We have an experienced and capable management team and operating staff with in-depth knowledge of the PRC paper cigarette packages industry. In addition to their in-depth industry knowledge, our management team also maintains good relationships with our customers and suppliers. In particular, Mr. Yang, our Controlling Shareholder, Chairman and executive Director, has been engaged in the paper cigarette packages industry for over 13 years. Mr. Feng, our chief executive officer and executive Director, also has more than 13 years of experience in the paper cigarette packages industry. Our Directors believe that our management team possesses the operational and product development experience required to lead our growth. The other key management members have been stable and they have been working together for an average of approximately ten years, possess highly relevant experience and expertise required within their department. In particular, Ms. Song, the deputy general manager of Hubei Golden Three Gorges, has over 13 years of experience in the design, printing and packaging industry. Mr. Yu, our production director of Hubei Golden Three Gorges, has over 20 years of experience in production management in the industry. Our Directors are confident that our Group will be able to keep abreast of the changing industry landscape and demands of our customers which in turn allows us to be competitive in the paper cigarette packaging market in the PRC. For further details of the qualifications and working experience of our Directors and senior management, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

BUSINESS STRATEGIES

Our principal business objectives are to continue strengthening our market position in the paper cigarette packages industry through our existing and potential customers, and to capture business opportunities in the packaging industry for social product paper packages.

There are challenges in the cigarette packaging market which we operate. For further details, please refer to the section headed "Industry Overview — Future opportunities and challenges to the cigarette packaging market" in this prospectus. In response to those market challenges and industry trend, we have adopted the following key business strategies.

To increase market penetration by enhancing our design and development capabilities

Our Group places a strong emphasis on packaging design and product development. Our customers value packaging design as it not only conveys message, values and culture of their respective brands, but also represents the quality of a particular brand in differentiation with other brands as well as counterfeit products in the market. Leveraging on our capability in providing tailor-made design and printing of paper cigarette packages, we believe we could build up and maintain long-term business relationships with our customers and attract potential customers going forward.

Our Group will continue to devote resources to enhance our product research and development capabilities. Among other existing policies, our Group intends to strengthen and carry out the following measures:

— we plan to apply for accreditation of our existing testing laboratory as a national laboratory. Our Directors believe that, in view of the increasingly stringent testing standards in the PRC, the accreditation of our existing testing laboratory as a national laboratory will strengthen customer confidence in our product quality, which in turn enhances our competitiveness. We have retained a consultation company to conduct on-site inspection of our existing facilities in preparation for the accreditation application;

— we plan to provide further training and education to our staff with development potential; and

— we plan to attend exhibitions, conferences and other activities in relation to printing and packaging, and maintain communication with industry leading enterprises to keep ourselves abreast of market information and the latest trends in the market.

In addition, we have entered into collaboration agreements with several tertiary institutions in the PRC for providing us with readily available technical expertise. We believe our collaboration with tertiary institutions will help us to further improve our operations, in particular in the areas of product development, production efficiency and quality control. For details of these collaborations, please refer to the paragraph headed "Product Research and Development" in this section.

We believe our design and other research and development capabilities can assist us in enhancing our position and increasing our market shares by attracting more business opportunities from both existing and potential customers.

For these reasons, we intend to invest 8.3% of our net proceeds from the Share Offer on the enhancement of our design and development capabilities.

To strengthen our sales and marketing efforts by enhancing relationship with existing customers and developing business with potential customers

We plan to devote further resources to strengthen our sales and marketing capabilities primarily for the enhancement of relationships with existing customers and the development of business with potential customers. As at the Latest Practicable Date, our customers include ten Provincial Tobacco Industrial Companies and five non-provincial companies from the China Tobacco Industry Development Center which are located in provinces such as Hubei, Sichuan, Yunnan, Shaanxi and Henan. For these existing customers, we endeavour to leverage on our existing approved supplier status to expand our products portfolio to cover other cigarette brands or sub-brands manufactured by these customers not currently designed and/or printed by us. In addition to enhancing our relationships and business scales with existing customers, we also intend to invest in markets in the PRC by setting up new sales offices in which we do not currently have any presence, for example, in Anhui Province and Jiangxi Province where we believe potential customers with great potential are located. We also intend to recruit more sales and marketing staff to strengthen our existing sales and marketing team. Our Directors believe that by establishing and maintaining a geographically closer presence with our customers, our Group can maintain better relationships with our customers and enhance our after-sales services to be provided to our customers which, in turn, will enhance customer satisfaction.

For these reasons, we intend to invest approximately 5.4% of the net proceeds from the Share Offer for the expansion of the sales and marketing network of our Group in order to enhance our Group's relationship with existing customers and explore business opportunities with potential customers.

To enhance our product variety by further developing our social product paper packages

Our Group has focused on the production of paper cigarette packages since the commencement of our business, mainly due to our Group's experience and expertise in the paper cigarette packages industry. We understand there are risks associated with the PRC cigarette industry and it is always our strategy to diversify our products portfolio to extend our production to social product paper packages, such as medicine, wine and food in order to minimise the negative impact of relying on a single industry segment and attain a healthy financial performance. We have set up a specialised department responsible for development of our social product paper packages. Further, our Group's technical know-how and equipment and machinery relating to our paper cigarette packages business are, with necessary adjustments to our production lines, transferable and can be applied to produce social product paper packages. By leveraging on our expertise in packages printing and increasing utilisation of our production capacity especially during the low season of the paper cigarette packages industry, we aim to continue with our effort to expand our product portfolio to paper packages for other products. With the set-up of this specialised department which we already have in place, we plan to expand our market shares in this non-cigarette package business line to further diversify our business.

For these reasons, we intend to invest approximately HK$12.1 million (equivalent to approximately RMB9.6 million), representing 22.7% of the net proceeds of the Share Offer to enhance our product variety and production capability. Of which, approximately RMB5.2 million will be spent on procuring new equipment and machinery for the social product paper package production line to include production of handmade gift box for high-end alcohol and beverage and handmade carrying bag, whereas the rest will be spent on procurement of equipment and machinery for our paper cigarette package production line. The above investment plans are expected to be completed by end of 2015.

To advance our machinery and equipment to improve our production quality

Our Directors believe that there is an upgrading trend in the cigarette market and in order to satisfy the higher requirements on packaging manufacturers' technological capability for these high-end products, our Group plans to continue to invest in our machinery and equipment in order to maintain our productivity in line with international standards. Our Directors believe that in today's technology-oriented business model, keeping our production line up-to-date is key to future success. Our management team is dedicated to pursuing new technology that enables us to lower production costs while maintaining or improving our production quality. In addition to our continued investment in advanced machinery in our production line, our Group will also invest to update our quality control equipment. The new machinery adopts more advanced printing technology as compared to the machines currently used and our Directors believe that such technology will result in higher efficiency in our production process. With the acquisition of new equipment, including inspection machines, our Directors believe that we would be able to maintain the high quality standards in our products, thus improving our competitiveness. Before implementing the strategy of acquiring more advanced machinery, our Group would take into account, among others, sales orders expected to receive, the investment costs and risks involved. We will also closely communicate with our customers to understand their production schedules in order to better formulate our production plan.

We intend to fund these capital investments by applying 33.1% (being HK$17.7 million (equivalent to approximately RMB14.0 million)) of the net proceeds from the Share Offer on technical advance, renewal and upgrade various existing machinery and equipment such as gravure printing machines, Printing ERP System and other related ancillary machinery and equipment. Although the technical advancement will not have a direct effect of increasing production capacity, it will add in new features to our machinery and equipment, repair and upgrade the existing features and functions of the operating machinery and equipment. These adding and upgrading features will enable us to maintain and improve our production quality. We intend to complete these capital investments by end of 2015. In order not to adversely affect our day-to-day production, we intend to implement these technical advancement plans by stages during the off-peak seasons of the industry.

We also intend to apply 21.5% (being HK$11.5 million (equivalent to approximately RMB9.1 million)) of the net proceeds from the Share Offer on the development of phase II of our Yichang production base. The development of phase II of our Yichang production base consists of (i) the refurbishment and redesign of layout of part of our existing social product paper packaging production facilities for the purpose of creating more production space and improving the efficiency of the post-press production of hand-crafted social product paper packages; and (ii) the construction of an additional social production paper packaging production plant for the purpose of increasing the production capacity of gluing and manual assembling.

The development will include improvement of the working condition and environment and expansion of our capability at the post-press stage of our production process for social product paper packages. Our Directors believe that these improvements will enhance our management towards our product's quality and therefore improving our competitiveness. For details, please refer to the paragraph headed "Production Facilities — Phase II of our Yichang Production Base" in this section.

As at the Latest Practicable Date, we have not identified any specific acquisition targets.

PRODUCTS AND SERVICES

Our Group has two main lines of products, namely paper cigarette packages and social product paper packages.

Our paper cigarette packages

Paper cigarette packages are packaging materials made of laminated papers to pack and carry cigarettes. Apart from their practical function of protecting the cigarettes from physical damage, paper cigarette packages are also used as a marketing tool to enhance the appearance and attractiveness of the cigarette brand to potential consumers by conveying brand images and designated messages, and providing brand information, such as brand name, manufacturer, characteristics of cigarettes and other prescribed information such as health warning statements. Our paper cigarette packages can be broadly classified into:

(i) hard and/or soft cigarette packets, which are usually used to pack and carry 20 sticks of cigarettes;

(ii) cigarette cartons which are usually used to pack and carry 10 packs of cigarette packets; and

(iii) gift sets designed to pack and carry various numbers of cigarette packets.

Our social product paper packages

(i) Coloured boxes which are colour-printed paper packages usually to pack drugs and medicines, liquor and alcoholic beverages, food and other social products;

(ii) labels, which are colour-printed labels for liquor and alcoholic beverage packages;

(iii) gift sets, which are usually used to pack liquor and alcoholic beverages, food in gift settings; and

(iv) paper bags, which are usually used to carry coloured boxes and gift sets.

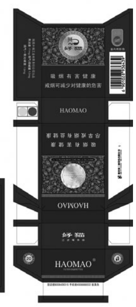
Our paper cigarette packages and social product paper packages are manufactured in accordance with the specifications prescribed by our customers, which typically display the brand names, logos, names of manufacturers and other information prescribed by legal and regulatory requirements. If required, we also provide design and brand development services to our customers.

Set out below are samples of our paper cigarette packages and social product paper packages:

Paper cigarette packages:

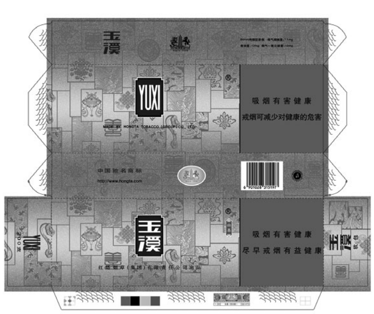
Paper cigarette packets and cigarette cartons:

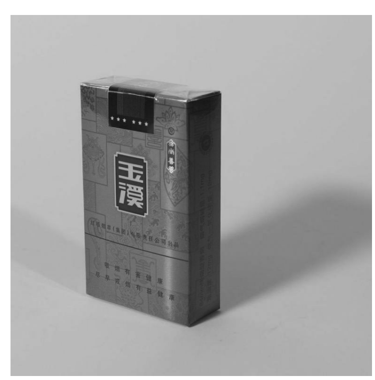
A sub-brand of Haomao (好貓)



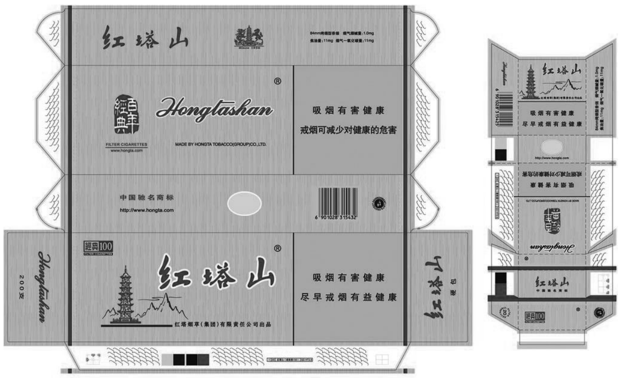
A sub-brand of Pride (嬌子)

A sub-brand of Yuxi (玉溪)

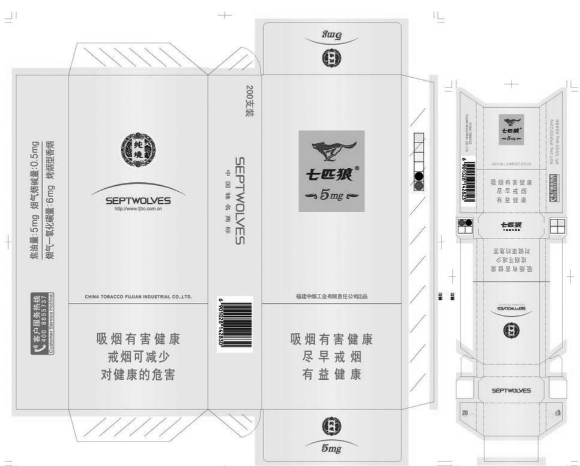




A sub-brand of Hongtashan (紅塔山)

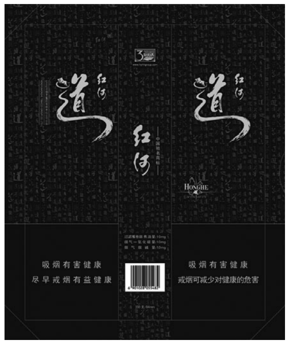


A sub-brand of Septwolves (七匹狼)



Cigarette gift sets:

A sub-brand of Honghe (紅河)



Social product paper package products:

Labels

Jing Brand (勁牌)

Gift sets

Jing Brand (勁牌)

REVENUE

The following table sets forth our revenue from the sale of paper cigarette packages and social product paper packages and their percentage of our total revenue:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*% of Revenue*	*RMB'000*	*% of Revenue*	*RMB'000*	*% of Revenue*
Paper cigarette packages	411,461	96.5	411,408	93.8	469,513	94.7
Social product paper packages	14,787	3.5	27,125	6.2	26,260	5.3
Total revenue	426,248	100.0	438,533	100.0	495,773	100.0

OUR CUSTOMERS

Paper cigarette packages

All of our sales of paper cigarette packages during the Track Record Period were made to customers in the PRC. According to the Euromonitor Report, the cigarette manufacturing and sales business in the PRC is monopolised by the PRC government, primarily STMA and CNTC. In recent years, the PRC government has implemented policies to restructure and consolidate the tobacco industry, including the issuance of Proposal on Accelerating Structural Adjustment for Cigarette Products (關於加快卷煙產品結構調整的意見) and Strategic Research Outline of China Cigarette Brands (中國卷煙品牌戰略研究提綱) in 2001, and the announcement of Development Outline of China Cigarette Brand (中國卷煙品牌發展綱要) in 2006 by STMA. STMA also issued lists of brands to be retained every two to three years. As a result, the number of cigarette brands was reduced from 1,183 in 2001 to 90 in 2013, while the number of cigarette manufacturers decreased from nearly 200 in 2000 to 26 in 2010. These 26 companies are subordinated to CNTC, including 16 Provincial Tobacco Industrial Companies, nine non-provincial companies from the China Tobacco Industry Development Center and one tobacco corporation, Shanghai Tobacco. For further details, please refer to the section headed "Industry Overview" in this prospectus.

During the Track Record Period, our sales to the ten Provincial Tobacco Industrial Companies and the five non-provincial companies from the China Tobacco Industry Development Center accounted for approximately 92.8%, 82.0% and 91.8% of the total revenue of our Group.

The following map shows the provinces in the PRC where our customers during the Track Record Period were located:

The table below sets out the information of the ten Provincial Tobacco Industrial Company and the five non-provincial companies from the China Tobacco Industry Development Center which were our customers during the Track Record Period:

Name of the customer	**Brands of paper cigarette packages which have been produced by us**	**Year of commencement of business relationships**
Provincial Tobacco Industrial Company		
China Tobacco Hubei	Hongjinlong (紅金龍)	2001
China Tobacco Chuanyu	Pride (嬌子), Wuniu (五牛), Longfeng Chengxiang (龍鳳呈祥)	2003
China Tobacco Henan	Hongqiqu (紅旗渠), Huangjinye (黃金葉)	2006
China Tobacco Hunan	Baisha (白沙)	2009
China Tobacco Guizhou	Huangguoshu (黃果樹)	2006
China Tobacco Yunnan	Yunyan (雲煙), Yuxi (玉溪), Honghe (紅河), Hongtashan (紅塔山)	2004

Name of the customer	Brands of paper cigarette packages which have been produced by us	Year of commencement of business relationships
China Tobacco Fujian	Septwolves (七匹狼), Golden Bridge (金橋)	2007
China Tobacco Shaanxi	Houwang (猴王), Haomao (好貓)	2002
China Tobacco Hebei	Diamond (鑽石)	2011
China Tobacco Shandong	Hatamen (哈德門), Taishan (泰山)	2009
China Tobacco Industry Development Center		
Heilongjiang Tobacco Industrial	Reishi (林海靈芝)	2009
Shanxi Kunming Tobacco	Honghe (紅河), Yunyan (雲煙)	2011
Inner Mongolia Kunming Cigarettes	Daqingshan (大青山)	2010
Shenzhen Tobacco Industrial	Haorizi (好日子)	2010
Hainan Hongta Cigarette	Hongtashan (紅塔山)	2010

Social product paper packages

Our social product paper packages, including labels and gift sets for social products, are all sold in the PRC. For the years ended 31 December 2011, 2012 and 2013, the sales from social product paper packages accounted for RMB14.8 million, RMB27.1 million and RMB26.3 million respectively, representing 3.5%, 6.2% and 5.3% of our total revenue. Customers of these products include Jing Brand (勁牌).

Five largest customers during the Track Record Period

Revenue from our five largest customers, which were cigarette manufacturers or paper cigarette packages manufacturer, accounted for RMB295.4 million, RMB253.4 million and RMB295.2 million respectively, representing approximately 69.3%, 57.9% and 59.6% of our total revenue for the three years ended 31 December 2011, 2012 and 2013, respectively. During the same period, our revenue from the largest customer amounted to RMB84.8 million, RMB90.1 million to RMB112.4 million respectively, which accounted for approximately 19.9%, 20.6% and 22.7% of our total revenue. The table below sets out the background of the five largest customers (seven in total during the Track Record Period), the year of commencing relationship with our Group, the major brands supplied by us and the approximate percentage of sales during the Track Record Period:

Name of customer	Background (Note 1)	Year commencing relationship	Major brands supplied	Year in which the customer was one of our Group's five largest customers and the approximate percentage of sales
China Tobacco Chuanyu	The seventh largest cigarette manufacturer in the PRC with sales constituting approximately 5.4% of total PRC cigarettes retail sales volume in 2013	2003	Pride (嬌子), Wuniu (五牛), Longfeng Chengxiang (龍鳳呈祥)	2011: 19.9% 2012: 20.6% 2013: 22.7%
China Tobacco Hubei	The fourth largest cigarette manufacturers in the PRC with sales constituting approximately 6.8% of total cigarette retail sales volume in 2013	2001	Hongjinlong (紅金龍)	2011: 15.0% 2012: 5.7% 2013: 11.9%
China Tobacco Shaanxi	One of the cigarette manufacturers in the PRC	2002	Houwang (猴王), Haomao (好貓)	2011: 11.6% 2012: 8.4% 2013: 6.5%
China Tobacco Yunnan (Note 2)	The largest cigarette manufacturer in the PRC with sales constituting approximately 18.4% of total cigarette retail sales volume in 2013	2004	Yunyan (雲煙), Yuxi (玉溪), Honghe (紅河), Hongtashan (紅塔山)	2011: 17.0% 2012: 14.2% 2013: 6.9%
China Tobacco Henan	The sixth largest cigarette manufacturer in the PRC with sales constituting approximately 6.3% of total cigarette retail sales volume in 2013	2006	Hongqiqu (紅旗渠), Huangjinye (黃金葉)	2013: 11.6%
Customer A (Note 3)	A paper cigarette packages manufacturer in the PRC, an Independent Third Party	2011	Brand A	2012: 9.0%

Name of customer	Background (Note 1)	Year commencing relationship	Major brands supplied	Year in which the customer was one of our Group's five largest customers and the approximate percentage of sales
Heilongjiang Tobacco Industrial	One of the cigarette manufacturers in the PRC	2009	Reishi (林海靈芝)	2011: 5.8%

Note 1: Source: Euromonitor Report

Note 2: Our Group entered into sale and purchase contracts with Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan.

Note 3: Customer A engages in various business segments covering manufacture and sales of packaging papers and manufacture of paper cigarette packages. For the year ended 31 December 2012, we also purchased paper from Customer A who required our Group to produce paper cigarette packages using the paper they supplied. Such arrangement was in place as this could ensure the quality of the products. During the Track Record Period, the percentage of revenue related to Customer A was 1.3%, 9.0% and 2.4%, respectively, while the cost related was 1.5%, 11.6% and 3.0%, respectively. The gross profit related to Customer A during the same period amounted to approximately RMB0.9 million, RMB3.0 million and RMB1.8 million, respectively.

None of our Directors, their respective associates, nor Shareholders who own more than 5% of the issued share capital of our Company, has any interest in the five largest customers of our Group during the Track Record Period. As set out in the section headed "History, Reorganisation and Group Structure — Our Major Operating Subsidiaries — Hubei Golden Three Gorges — Minority Shareholder" in this prospectus, China Tobacco Hubei is a de facto equity holder of Hubei Three Gorges, a minority equity holder of Hubei Golden Three Gorges, and hence a connected person of our Company under the Listing Rules. As all Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center are owned directly or indirectly by CNTC, which is the holding company of China Tobacco Hubei, each of them is a connected person of our Company under the Listing Rules. For details, please refer to the section headed "Connected Transactions" in this prospectus.

During the Track Record Period, our revenue from the ten Provincial Tobacco Industrial Companies and the five non-provincial companies from the China Tobacco Industry Development Center accounted for approximately 92.8%, 82.0% and 91.8% of our total revenue. Notwithstanding these 15 customers are all state-owned enterprises subordinated to CNTC and each of them is a connected person of our Company, our Directors consider that our Group has no reliance on these customers for the following reasons:

(i) as disclosed in the section headed "Business — Overview — Our paper cigarette packages customers" in this prospectus, cigarette market in the PRC is unique and is monopolised by the PRC government. As a result of industry consolidation, only 26 cigarette manufacturers which are all under the control and supervision of CNTC have remained in the cigarette market since 2010. These 26 cigarette manufacturers, their respective branches, factories and entities are the principal customers for the entire industry;

(ii) although the Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center are subordinated to CNTC, to the best knowledge of our Directors after making reasonable enquiries, each of them has an independent operation, including a separate tendering process;

(iii) as only qualified suppliers are invited to participate in the independent tendering process, the ability of our Group to secure sales contracts with the customers has demonstrated the competitiveness of our paper cigarette packages in terms of quality, pricing, production capacity and technical capability;

(iv) the termination of business relationship by any one customer with our Group does not affect our relationship with other customers; and

(v) the customers have different geographical locations in the PRC and they generally produce products of their own brands.

Given the unique nature of the PRC cigarette market, our Directors are of the view that there is no reliance on any of these cigarette manufactures or CNTC as a whole.

Approved supplier system

As required by the PRC government and in accordance with the 《煙用物資採購管理規定》 (Rules on the Procurement Management of Cigarette-related Materials*) (the "**Procurement Rules**") issued by STMA and CNTC, cigarette manufacturers in the PRC have gradually adopted the tendering system for the selection of paper cigarette packages suppliers since 2011. Before the implementation of the tendering system, Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center generally adopted an "approved supplier" system, under which these companies only sourced packaging materials from their respective lists of "approved suppliers". Our Directors believe that there is no industry standard and this was a form of internal practice generally adopted and administered by cigarette manufactures which did not require approval by the PRC government.

To be admitted as an approved supplier of the cigarette manufacturers in the PRC, a supplier of paper cigarette packages typically needs to go through a qualification approval process, which involves submission of application documents together with qualification supporting documents, such as business licence, tax registration licence and printing business licence, to the cigarette manufacturer. The cigarette manufacturers will normally conduct a series of verification, assessment and checking process. Depending on the internal standards and practices of different manufacturers, the process may include (i) interview with the management team of the supplier; (ii) site visit of the supplier's production site to verify the submitted information; and (iii) conduct quality check on the supplier's products. The cigarette manufacturers generally assess the applicant's suitability for being admitted as an approved supplier by taking into consideration, amongst other factors, (i) its management ability; (ii) its financial condition; (iii) its production capacity, research and development capability and technical ability, including ability to provide practical solutions; (iv) capability to supply packaging material in response to cigarette manufacturers' product requirements and specifications; and (v) after-sale services.

An approved supplier is subject to periodic review by the cigarette manufacturer generally every one to three years, where such cigarette manufacturer may conduct various assessment and inspections on the supplier, including (i) reviewing the product quality and services offered by the supplier during the past contract term; (ii) assessing the overall production capability, product quality, technological strengths of the supplier, and the after-sales services provided by the supplier; (iii) physically inspecting the production facilities, production and quality control process of the supplier; and (iv) reviewing the legal qualification and eligibility of the supplier, including its latest business licence and the printing operation permit.

As at the Latest Practicable Date, we were an approved supplier of ten Provincial Tobacco Industrial Companies and five non-provincial companies from the China Tobacco Industry Development Center. Our Directors consider that our admission as an approved supplier of customers demonstrates our ability to consistently provide quality products and services which satisfy our customers' requirements.

Tendering system

The tendering system has been adopted and implemented by PRC cigarette manufactures since 2011. In general, approved suppliers would be allowed and invited to participate in the tendering process. Suppliers are required to submit tender documents according to instructions in the invitation. The cigarette manufacturer usually selects suppliers based on requirements specified in the invitation, including, amongst others factors, (i) background and credentials of the supplier; (ii) unit prices of the products submitted in the tendering documents; (iii) the production equipment and capacity, and technical capability of the supplier; (iv) production and quality control process of the supplier; and (v) research and development capabilities. The cigarette manufacturer adopts a scoring system in the assessment and additional scores may be given if the supplier can demonstrate its research and design capabilities, thus enhancing its competitiveness in the tendering process. The results are generally announced immediately after the tender has closed.

After the tender result is decided, the cigarette manufacturer would enter into a sale and purchase contract with the cigarette package supplier which won the tender. Duration of the contract usually ranges from one to two years. The terms of the sale and purchase contract, though may vary among different cigarette manufacturers, typically contain the following terms: (i) types and specifications of paper cigarette packages to be supplied; (ii) indicative quantity of paper cigarette packages; (iii) fixed unit price of paper cigarette packages; (iv) delivery schedule and logistic arrangements; and (v) settlement terms. It is customary that the cigarette manufacturer and the supplier would determine a fixed unit price (based on the unit price of the products submitted in the tendering documents) for each type of the products to be supplied throughout the contract period, but the quantity is subject to the cigarette manufacturer's production plan and schedule, which will be communicated with the supplier on a monthly basis.

For those customers which are cigarette manufacturers, they have been using the tendering process for the purchase of paper cigarette packages since 2011.

Exceptions to tendering

There are nevertheless circumstances where procurement of paper cigarette packages can be made by means other than tendering. Pursuant to the Procurement Rules, procurement can be done through competitive negotiation, procurement from single source or request for fee quotation.

The conditions for procurement by competitive negotiation include the following: (i) there was no submission of tenders or no eligible tenders received after invitation for tenders; (ii) the nature is special or the technical requirement is complicated such that it is infeasible to specify the detailed specifications or requirements; (iii) procurement by way of open tenders cannot satisfy the urgent need of the users; and (iv) it is infeasible to calculate the aggregate price in advance.

The conditions for single source procurement include the following: (i) the materials can only be procured from a single supplier; (ii) occurrence of unexpected urgent circumstances such that it becomes infeasible to procure the materials from other suppliers; (iii) it is required to procure from the same supplier in order to ensure consistency; and (iv) extra procurement based on the same terms and conditions of an existing contract, the amount of which is not more than 10% of the existing contract amount.

The conditions for request for fee quotation include the materials to be procured is of unified specifications and standard, the supplies are sufficient and the fluctuation in price is small and the annual procurement amount is less than RMB300,000.

Further, the Procurement Rules expressly stipulate that the obligation of complying with the tender requirement is on the party seeking to procure the cigarette-related materials, namely, cigarette manufacturers but not the suppliers. While the Procurement Rules contain penalty provisions on the cigarette manufacturers which fail to comply with the procurement procedures, there are no penalty provisions on the suppliers.

In addition to those provisions in the Procurement Rules, according to the《煙草行業工程投資、物資採購和宣傳促銷項目管理程序的規定》(Rules on the Management of Project Investment, Procurement of Materials and Promotion Activities of Cigarette Industry*) issued by STMA and CNTC, subject to the approval of the relevant supervisory authority, any cigarette manufacturer which satisfies the following conditions may procure materials by way of competitive negotiation, procurement from single source or request for fee quotation: (i) the number of suppliers is less than three; (ii) it is related to the safety or secret of the industry; (iii) it is related to the core technical know-how of the cigarettes industry; and (iv) adoption of patent or specific technique. Therefore, it is possible for cigarette manufacturers to procure paper cigarette packages other than by way of open tender.

Major sales contracts with our five largest customers

After winning a tender, our Group would usually enter into sales contracts with the Provincial Tobacco Industrial Companies and non-provincial companies from the China Tobacco Industry Development Center customers for a term ranging from one to two years. The sales contracts entered into by our Group with our five largest customers which are tobacco companies generally contain the following principal terms:

Contracted quantity:	There is generally no minimum purchase quantity in the contracts. Purchase orders specifying quantities are issued by the relevant customer on a monthly basis.
Pricing terms:	The sales contracts usually set out the fixed unit price.
Price adjustment:	Our Group is not allowed to adjust the price.
Credit terms:	The credit period usually ranges from 30 days to 90 days upon our customer's confirmation of receiving invoices. In certain sales contracts, no credit terms have been specified. In practice, settlement is made within 90 to 120 days upon receipt of the relevant invoices.
Payment methods:	The settlement is usually made by way of telegraphic transfer. Certain customers accepts settlement by bank acceptance notes.
Trading terms:	Our Group manufactures the products and delivers them to the relevant customer according to the requirements designated by the relevant customer from time to time. Our Group bears the transportation costs.
Termination and renewal:	There is usually no renewal clause. Our Group needs to submit tender documents to the relevant customer again to bid for a new tender.
Product warranty:	In certain sales contracts, our Group warrants that the products have complied with the quality standards stated in the contract. If there are any quality issues during the warranty period, our Group has to arrange for product exchange or return or provide compensation within 30 days upon notice.

As at the Latest Practicable Date, our Group had 14 tenders in effect and entered into 55 sales contracts for sales in 2014 onwards. Our Group was also in the process of participating in three tenders. As a cigarette manufacturer usually covers a number of products it requires in its tender invitation, it may enter into separate sales contracts with regard to different products and different brands with the respective supplier that won the tender. During the period between expiry of the sales contracts and the completion of the next tenders, if we are required to continue to supply certain products to our customers, we may enter into provisional supply contracts with the relevant customers under the old tenders. Certain customers may also directly enter into purchase orders after we have won the relevant tenders.

There are exceptional circumstances where sales contracts are entered into without going through the tendering process. Please refer to the paragraph headed "Exceptions to tendering" in this section for further details. As at the Latest Practicable Date, six out of the 55 sales contracts for sales in 2014 onwards were entered into for the supply of new products some of which were designed by our Group without going through the tendering process.

For details of the sales contracts and purchase orders which our Group has entered into for sales in 2014, please refer to the section headed "Connected Transactions — Non-Exempt Continuing Connected Transactions — Sale of paper cigarette packages by our Group" in this prospectus.

SALES AND MARKETING

Pricing policy

Prior to the adoption of tendering system in year 2011

Prior to the implementation of the tendering system by our major customers in 2011, we secured purchase orders of existing products from our major customers, namely the ten Provincial Tobacco Industrial Companies and the five non-provincial companies from the China Tobacco Industry Development Center, through the approved supplier system, and the sales price was usually market driven and was set by making reference to the historical trend. For new products designed by our Group, the price was set through direct negotiations with our customers after taking into consideration production costs and expected gross profit margin.

After the adoption of tendering system in year 2011

Since 2011, cigarette manufacturers in the PRC were required to gradually adopt the tendering system in accordance with the requirements of the Procurement Rules. In response to the general development of sourcing procedures of major cigarette manufacturers in the PRC, we have been actively participating in the tenders organised by our customers. Please refer to the paragraph headed "Our Customers — Tendering system" in this section for a detailed discussion of the tendering system.

The tender invitations issued by the cigarette manufacturers usually specify a preferred price range for each product and we are required to set out the price of our products in the tender documents. In determining the tender price, we endeavour to maximise our chances of winning the tender while at the same time maintaining a satisfactory return to our Group. Our management will take into account factors including the mechanism and procedure of the relevant tender, and the specific criteria of winning the tender, production costs and expected gross profit margin, production capacity and existing production schedule, product specifications, raw material requirements, production volume and delivery arrangements.

The following table sets forth our revenue, sales volume and average selling price of paper cigarette packages for the years indicated:

	Year ended 31 December								
	2011			2012			2013		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	RMB'000	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*
Paper cigarette packages	411,461	215,557	1,908.8	411,408	206,290	1,994.3	469,513	239,721	1,958.6

Note: Our paper cigarette packages can be categorized into two types by size: small cigarette packets each of which usually contain 20 sticks of cigarettes and carton packages each of which usually contain 10 cigarette packets. We measure our customer's purchase volume by the number of unfolded cigarette packages and carton packages. The ratio of pieces of cigarette packets to carton packages that our customers purchase from us are usually in the proportion of 10:1. There are rounding differences between (i) the product of sales volume and average selling price and (ii) revenues.

We do not provide sales volume and average selling price for our social product paper packages as their price varies significantly based on size, design and other factors. The size and weight of our social product paper packages vary by type, purpose and other factors. In addition, our revenue generated from selling social product paper packages accounted for less than 10% of our total revenue during the Track Record Period.

Social product paper packages

The sales of social product paper packages does not need to go through the tendering process. Rather, we approach these customers through direct communication. The sales price for social product paper packages are determined through negotiation with our customers. We assess the costs of producing the social products, including the costs of raw materials and labour, based on the samples received.

Credit control policy

The credit terms to be offered to our customers are not subject to negotiation since they are set out in the sales contracts with our customers. In particular, for our paper cigarette packages customers, the credit terms are usually reflection of the terms in the tender invitation. The credit period our customers enjoy usually lasts from 30 days to 90 days. Such credit period generally commence upon our customer's confirmation of receiving our invoices. It can take around 30 days from our delivery of goods to our customer's final confirmation of receiving the invoice, taking into consideration the time required for us to prepare the invoices and complete our internal procedure, the invoice mailing time and the time required for our customers to complete their internal control procedure and issue the final confirmation. Taking into consideration the extra 30 days, our receivable period can be prolonged to 90 to 120 days. Most of our transactions are settled in RMB by way of telegraphic transfer and bank acceptance notes. Our Group has not experienced any material difficulties in collecting payments from our customers during the Track Record Period. For each of the three years ended 31 December 2011, 2012 and 2013, our average trade and note receivables turnover days were approximately 102 days, 114 days and 121 days, respectively. Since most of our paper cigarette package customers are state-owned enterprises, we believe the credit risks associated with them are not high. Please refer to the section headed "Financial Information — Certain Balance Sheet Items — Trade and note receivables" in this prospectus for detailed discussion of the aging analysis and the turnover days of the trade and note receivables of our Group.

Sales and marketing team and after-sales services

As at the Latest Practicable Date, we had a total of 35 staff in our sales and marketing team, which primarily focuses on our Group's sales and marketing activities in the PRC. As our purchase orders are project-based and all of our paper cigarette packages and social product paper packages are tailor-made according to our customers' specifications, we seek to maintain close contacts with our customers in order to better understand their business and production needs.

Our sales and marketing staff regularly visits customers to understand their business and production needs and the latest market trends. Through these visits, we can understand our customers' needs and to ensure that delivery of our products meets their production schedule and help us to promptly respond to market developments and provide solutions to our customers. We also collaborate with our customers to develop new product designs.

Our sales and marketing team is also responsible for collecting customers' feedback. When we receive comments or a sales return request from our customers, our staff will contact the customer concerned and pay visits to our customers to address any product issues raised.

Our sales and marketing team reports customers' feedback to our management team and also holds internal market analysis meetings from time to time to discuss latest industry trends and sales and marketing strategies.

Sales return

Our Group has adopted a unified sales return policy which applies to all of our products and all of our customers. Request for product return is only accepted where there are product quality issues and upon re-examination of the alleged defective product by our production team, quality control team and sales and marketing team.

During the Track Record Period and up to the Latest Practicable Date, there were no sales return to our Group.

PRODUCT RESEARCH AND DEVELOPMENT

Our technology center

We place great emphasis on our product research, design and development capabilities. We strive to advance our printing technologies in order to respond to customer needs and competitive pressures. Instead of positioning ourselves as a mere manufacturer of paper cigarette packages, we are committed to the contribution of ideas on development of new products and modifications to existing products. Our expertise and innovative capabilities allow us to use the advanced technologies, materials and processes to efficiently solve problems for customers and to bring relevant and innovative products to market.

Our technology center at our Yichang Factory is the center of our research and development department where we establish our product portfolio and develop product designs. It has been recognised as the provincial technology center of Hubei Province (省級技術中心) since November 2006. Our position in the industry is exemplified by fact that Hubei Golden Three Gorges was recognised as a High Technology Enterprise (高新技術企業) in 2009 and 2012. We were also involved in the amendment to the PRC National Standards for Flexographic Decorating Printed Products (柔性版裝潢印刷品國家標準修改) in 2011.

As at the Latest Practicable Date, our research and development team led by Ms. Song Chun, our deputy general manager of Hubei Golden Three Gorges, consisted of 51 staff, most of whom had worked for our Group between five to 12 years. 28 staff members in the technology center have received tertiary or higher education. We also had 13 product design staff who are responsible for the design of our paper cigarette packages and other paper package products. For details of Ms. Song's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

Our technology capability

We have been carrying out technology research and development projects which aim at enhancing our printing technology and certain research results are recognised as technological achievements in the Hubei Province (湖北省科技成果) by the Science and Technology Department of Hubei Province (湖北省科技廳). Some of our recent technology research and development projects include:

Technologies	Special features
Surface bronzing with snowflake oil (雪花油表面可燙金技術)	To allow prints be imposed directly on the snowflake oil surface during stencil printing in order to achieve precise bronzing
Over-printability process and hologram positioning printing technology (先燙後印全息定位印刷技術)	To change the structure of the electrochemical aluminum to achieve precise bronzing
Multi-colored fluorescent particle technology (多彩熒光微粒技術)	To enhance the anti-counterfeiting feature by adding multi-coloured fluorescent particle into the ink
Compact laser engraving technology (微縮激光雕刻燙金技術)	To modify the electrochemical aluminum in order to achieve precise bronzing
Ultrastructural vertical printing anti-counterfeiting technology (超微結構直印型防偽技術)	To enhance the anti-counterfeiting quality by mixing ultrafine particles with other materials during the printing process

As at the Latest Practicable Date, we have registered 21 patents, namely, 11 utility patents, eight design patent and two invention patents. For details of our patents, please refer to the section headed "Statutory and General Information — Intellectual property rights" set out in Appendix V to this prospectus.

Product design

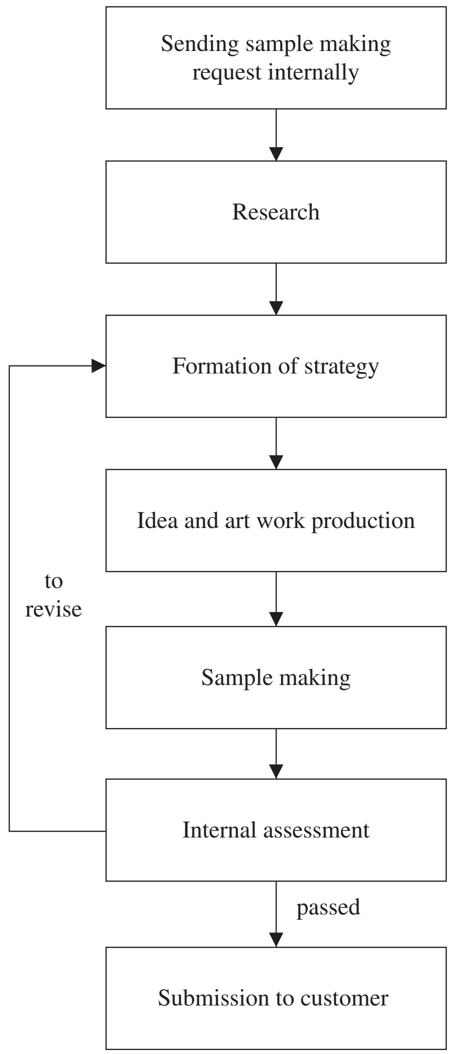
We consider that our innovative product design capability is what differentiates us from some of our competitors who position themselves as mere manufacturers. As additional scores may be given to paper cigarette packages suppliers with research and design capabilities under the tendering system, we endeavour to devote resources to strengthen our product design and brand development abilities. We believe our efforts will enable us to maintain our market position and allow us to stay competitive in the paper cigarette packages market and the social product paper packages markets, respectively.

We are also involved in projects to develop new designs with our customers. Our product design staff communicate with our customers regularly to understand their products and packaging requirements, and produce samples and models of the package designs for customer approval before proceeding to mass production.

Our designs have been approved and adopted for commercial production by various customers, including sub-brands of Pride (嬌子), Haomao (好貓), Houwang (猴王), Huangjinye (黃金葉) and Golden Bridge (金橋). A sub-brand of Yuxi (玉溪) and Haomao (好貓) were awarded the 中國十大煙標金獎 (Golden Award of the Top 10 Cigarette Packages in China*) by 《中國招標 • 全球煙草包裝》 in 2006 and 2008 respectively.

In order to ensure each product design project is properly and orderly executed, we have established the following procedures for sample making, specifying steps from gathering customers and market information to product design and internal assessment:

The flow chart of sample making is set out below:



Collaboration with tertiary institutions and designers

We realise the value of collaboration with tertiary institutions and have entered into collaboration agreements with several tertiary institutions in the PRC for providing us with readily available technical expertise. With these collaborations, the tertiary institutions help us to further improve our operations, in particular in the areas of product development, production efficiency and quality control. We have signed two cooperation agreements with China Three Gorges University (三峽大學) in January 2010 and April 2010, respectively, in respect of (i) joint design and development of machinery for, among other functions, lowering the level of VOCs in a cigarette package, the relevant utility patent of which has been obtained by our Group; and (ii) technology project cooperation and training of personnel. Any patent for any developed technology would be applied for jointly. We have also signed a two-year collaboration agreement with Three Gorges Technician Institute of Hubei (湖北三峽技師學院) in March 2013. Pursuant to the agreement, its staff would engage in our research and development projects and we would, in return, provide internship opportunities to its students.

In relation to product testing, we have engaged Huazhong University of Science and Technology (華中科技大學) to test the toxic levels of certain of our products. We have also signed a three-year cooperation agreement with South China Normal University (華南師範大學) in May 2013, pursuant to which we shall jointly develop utility patent on printing, covering wide areas including raw materials, production and technology of anti-counterfeit features with South China Normal University (華南師範大學). The relevant utility patents will be owned by our Group.

We also collaborate with local individual designers on a project basis to enhance our product designs. We believe our research and development capabilities can assist us in enhancing our market position by attracting more business opportunities from both existing and potential customers.

Research and development expenses

Our research and development expenses amount to approximately RMB14.8 million, RMB14.7 million and RMB16.9 million during each of the three years ended 31 December 2011, 2012 and 2013 respectively, representing approximately 3.5%, 3.4% and 3.4% of our total revenue for the respective year. The total salaries for our research and development personnel amounted to approximately RMB2.1 million, RMB2.7 million and RMB3.2 million for each of the three years ended 31 December 2011, 2012 and 2013 respectively.

PRODUCTION FACILITIES

As at the Latest Practicable Date, we had two manufacturing plants located in Yichang and Dangyang, Hubei, with an aggregate gross floor area of approximately 43,986.0 sq.m..

Yichang Factory

During the Track Record Period, our Group carried out paper packages design and production activities for both paper cigarette packages and social product paper packages, mainly at the Yichang Factory. At the Yichang Factory we have constructed 13 factory and ancillary buildings used as our production plant, with an aggregate gross floor area of approximately 31,713.2 sq.m..

Set out in the table below are the details of the annual designed production capacity, actual production volume and utilisation rate for paper cigarette packages at the Yichang Factory for each of the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	**2012**	**2013**
Full year			
Annual designed production capacity *(ten thousand prints)*	21,439	20,908	20,005
Actual production volume *(ten thousand prints)*	13,874	13,051	14,266
Utilisation rate	64.7%	62.4%	71.2%

Notes:

1. The annual designed production capacity figures are determined and calculated by multiplying the daily capacity of our printing machines with the applicable number of days of operation per year and the number of printing machines. With respect to the daily capacity of our printing machines, it is calculated with reference to the number of prints of our products manufactured each day.

2. Our Yichang Factory consists of four offset printing machines, two flexographic printing machines and one rotogravure printing machine for the production of paper cigarette packages. In the years ended 31 December 2011 and 2012, two additional offset printing machines (which were originally designed for social product paper packages) were used for the production of both paper cigarette packages and other social product paper packages. Approximately 38% and 23% of the production capacity of these two additional offset printing machines were spent on producing paper cigarette packages in the years ended 31 December 2011 and 2012 respectively.

3. We assume the daily operating hours to be 9.5 hours for our offset printing machines, 12.5 hours for our flexographic printing machines, 10.5 hours for our rotogravure printing machine and 10.5 hours for our additional offset printing machines (when producing paper cigarette packages), taking into account the time required for the changing of printing plates calibration, repairs, maintenance and other production down time. We also assume our facility to operate 288 days per year taking into account staff holidays and public holidays.

4. Utilisation rates are calculated by dividing the actual production volume over the approximate annual designed production capacity.

5. A single print of our cigarette package product typically contains four pieces of carton packages or 18 pieces of cigarette packets.

Set out in the table below are the details of the annual designed production capacity, actual production volume and utilisation rate for social product paper packages products at the Yichang Factory for each of the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	**2012**	**2013**
Full year			
Annual designed production capacity *(ten thousand prints)*	1,630	2,008	2,619
Actual production volume *(ten thousand prints)*	1,244	1,468	1,522
Utilisation rate	76.3%	73.1%	58.1%

Notes:

1. The annual designed production capacity figures are determined and calculated by multiplying the daily capacity of our printing machines with the applicable number of days of operation per year and the number of printing machines. With respect to the daily capacity of our printing machines, it is calculated with reference to the number of prints of our products manufactured each day.

2. Our Yichang Factory consists of two offset printing machines originally assigned for the production of social product paper packages. However, in the years ended 31 December 2011 and 2012, these two offset printing machines were partly used for the production of paper cigarette packages and partly for social product paper packages. Approximately 62% and 77% of the production capacity of these two offset printing machines were spent on producing social product paper packages in the years ended 31 December 2011 and 2012 respectively.

3. We assume the daily operating hours to be 7.5 hours for the two offset printing machines (when producing social product paper packages), taking into account the time required for the changing of printing plates calibration, repairs, maintenance and other production down time. We also assume our facility to operate 288 days per year taking into account staff holidays and public holidays.

4. Utilisation rates are calculated by dividing the actual production volume over the approximate annual designed production capacity.

5. A single print of our cigarette package product typically contains four pieces of carton packages or 18 pieces of cigarette packets.

The annual designed production capacity for paper cigarette packages at the Yichang Factory decreased from 21,439 ten thousand prints for the year ended 2011 to 20,005 ten thousand prints for the year ended 2013 due to the decrease in production time allocated to the production of paper cigarette packages for the two additional offset printing machines (which were originally assigned for social product paper packages). The utilisation rate for our paper cigarette packages production at the Yichang Factory was between 62.4% and 71.2%, which was affected by the low utilisation rate for our flexographic printing machines, which may be slowly phased out. The utilisation rate for our flexographic printing machines decreased from 36.0% for the year ended 2011 to 23.0% in for the year ended 2013. The utilisation rate for our offset printing machines and rotogravure machines constantly exceeded 75% and exceeded 100% of our designed capacity in certain months during the peak seasons as a result of overtime and additional days of operation to cope with the congestion of orders received.

The annual designed production capacity for social product paper packages at the Yichang Factory increased from 1,630 ten thousand prints for the year ended 2011 to 2,619 ten thousand prints for the year ended 2013 due to the increase in production time allocated to the production of social product paper packages for the two offset printing machines in anticipation of potential growth in our social product paper packages business. Due to the increase in annual designed production capacity, the utilisation rate for social product paper packages decreased from 76.3% for the year ended 2011 to 58.1% for the year ended 2013 when the actual production volume for social product paper packages increased from 1,244 ten thousand prints to 1,522 ten thousand prints over the same period.

During the Track Record Period, the utilisation rates for paper cigarette packages and social product paper packages at both the Yichang Factory and Dangyang Factory were approximately 70%. Our Directors believe that this is the optimum level our machinery can achieve, as production exceeding such level may accelerate the deterioration of machinery and adversely affect the quality of our products. For these reasons, we do not have an immediate plan to further increase our production capacity. We intend to apply 21.5% of the net proceeds from the Share Offer on the construction and re-development of phase II of the Yichang production base.

Phase II of our Yichang Production Base

The development of phase II of our Yichang production base consists of (i) the refurbishment and redesign of layout of part of our existing social product paper packaging production facilities for the purpose of creating more production space and improving the efficiency of the post-press production of hand-crafted social product paper packages; and (ii) the construction of an additional social production paper packaging production plant for the purpose of increasing the production capacity of gluing and manual assembling.

The development will include improving the working condition and environment and expanding our capability at the post-press stage of our production process for social product paper packages. Our Directors believe that these improvements will enhance our management towards our product's quality and therefore improving our competitiveness. Detailed development plans include (i) advancing the air-conditioning, lighting, ventilation and the steam pipe systems; (ii) shortening the routes for logistics within the production base of the semi-finished products; (iii) building of retaining walls and other infrastructures; (iv) reconstructing of the internal structure; and (v) renovating the office infrastructure.

Although the development plan does not include addition of production line, we expect our (i) overall capability; (ii) production efficiency including the post-press stage of our production process for social product paper packages; and (iii) our production capacity of hand-crafted social product paper packages will be improved. With all these improvements, we plan to increase our production of hand-crafted social product paper packages by 11 thousand cases per year.

In order to minimise disturbance to our day-to-day production, we intend to carry out the relocation only during the off-peak seasons of the industry. As the other production plants will continue to operate during the development of phase II of our Yichang production base and the relocation of equipment and machinery will be implemented gradually during off-peak seasons, we do not expect any general stoppage of production or any material impact to our operation during the relocation.

Dangyang Factory

In addition to our production lines in the Yichang Factory, our Group has two production lines of paper cigarette packages at the Dangyang Factory to share the production workload and to further increase our production capacity in anticipation of potential business growth. During the Track Record Period, our Group carried out its paper cigarette packages production and sale activities at the Dangyang Factory. At the Dangyang Factory, we have constructed 11 factory and ancillary buildings used as our production plant with an aggregate gross floor area of approximately 12,272.8 sq.m.

Set out in the table below are the details of the annual designed production capacity, actual production volume and utilisation rate for our paper cigarette packages at the Dangyang Factory for each of the years ended 31 December 2011, 2012 and 2013:

	Year ended 31 December		
	2011	**2012**	**2013**
Full year			
Annual designed production capacity *(ten thousand prints)*	7,528	7,528	7,528
Actual production volume *(ten thousand prints)*	5,545	5,478	6,766
Utilisation rate	73.7%	72.8%	89.9%

Notes:

1. The annual designed production capacity figures are determined and calculated by multiplying the daily capacity of our printing machines with the applicable number of days of operation per year and the number of printing machines. With respect to the daily capacity of our printing machines, it is calculated with reference to the number of prints of our products manufactured each day.

2. Our Dangyang Factory consists of two gravure printing machines for the production of paper cigarette packages.

3. We assume the daily operating hours to be 10.5 hours for our gravure printing machines, taking into account the time required for the changing of printing plates calibration, repairs, maintenance and other production down time. We also assume our facility to operate 288 days per year taking into account staff holidays and public holidays.

4. Utilisation rates are calculated by dividing the actual production volume over the approximate annual designed production capacity.

5. A single print of our cigarette package product typically contains four pieces of carton packages or 18 pieces of cigarette packets.

The annual designed production capacity of the Dangyang Factory was 7,528 ten thousand prints for each of the years ended 31 December 2011, 2012 and 2013. In certain months during the peak seasons, our utilisation rates exceeded 100% of our designed capacity as a result of overtime and additional days of operations to cope with the congestion of orders received.

For both our Yichang Factory and Dangyang Factory, our production department formulates our production plans according to the orders received from the sales and marketing department, subject to adjustments based on actual fulfillment and anticipated level of new sales orders. For further details of the property interests of our Group, please refer to Appendix III to this prospectus and the paragraph headed "Properties" in this section, respectively.

Equipment and machinery

We place great emphasis on the use of advanced equipment and machinery to maintain the efficiency of production and quality of products. Our principal equipment and machinery include those used for relief printing, intaglio printing, offset printing, stencil printing, hot foil stamping and die-cutting. In order to produce quality products that meet specifications demanded by our customers, some of the major equipment and machinery used by our Group are acquired from overseas manufacturers, including offset printers from Germany and Japan, a hot foil stamping machine from Switzerland and gravure printing machines from Australia and France.

Our Group regards our printing machines as our principal equipment. The following is a list of the printing machines of our Group as at the Latest Practicable Date:

No.	Type of machines	Number of unit(s)	Location	Year of purchase	Expected useful life for depreciation purposes
1.	Six-color offset press	2	Yichang Factory	1996 and 2007	15 years
2.	Eight-color offset press	2	Yichang Factory	1998 and 2010	15 years
3.	Four-color offset printing machine	2	Yichang Factory	2000 and 2005	15 years
4.	Five-color offset printing machine	1	Yichang Factory	2000	15 years
5.	Ten-color flexographic printing press	2	Yichang Factory	2005 and 2006	15 years
6.	Rotogravure printing machine with electronic shaft drive	1	Yichang Factory	2009	15 years
7.	Seven-color gravure printing machine	1	Dangyang Factory	1993	15 years
8.	Eight-color gravure printing machine	1	Dangyang Factory	1998	15 years

Although some of our principal printing machines have reached or will soon reach the expiration of their expected useful life for depreciation purposes, our Directors consider that, with regular repair and maintenance, they continue to function properly and there is no imminent plan for replacement. Nevertheless, our Group may upgrade some of our existing machines by installing new parts in order to enhance our production capacity and efficiency. Please refer to the paragraph headed "Business Strategies — To advance our machinery and equipment and to improve our production quality" in this section and the section headed "Future Plans and Use of Proceeds" in this prospectus for further details.

The equipment and machinery of our Group are operated by our production staff. As at the Latest Practicable Date, we employed a total of 734 production staff. Our Group provides on-going technical training to the production staff on, amongst others, safe operation and maintenance of equipment and machinery. Our equipment and machinery are routinely maintained to ensure their smooth operation. In order to further enhance the stability of production, inspections of the equipment and machinery are carried out on a weekly basis to identify and perform necessary repair and maintenance procedures. In circumstances where our in-house engineers are unable to repair the equipment and machinery, we would employ services from external professional technicians for assistance. The repair and maintenance costs of our Group amounted to approximately RMB4,508,000, RMB5,459,000 and RMB3,154,000 for each of the years ended 31 December 2011, 2012 and 2013, respectively. Our Directors consider that, with adequate repair and maintenance, no replacement of the existing principal equipment and machinery of our Group will be required within the coming two years.

SUBCONTRACTING

During the Track Record Period, we outsourced production of certain paper cigarette packages to a few paper cigarette packages printing companies which were Independent Third Parties. Certain purchase orders outsourced by us involved customers with which we entered into sales contracts pursuant to the tendering process. We engaged these subcontractors to manufacture paper cigarette packages for us mainly during peak seasons, or when our production capacity was insufficient to meet our customers' purchase orders and the required delivery schedule. We entered into subcontracting agreements with the subcontractors from time to time, pursuant to which the subcontractors were responsible for printing a certain quantity of paper cigarette packages based on the specification required by our customers.

During the relevant period, we selected our subcontractors based on factors such as their production capacity, technical capability and quality assurance system. Our quality control staff examined the raw materials before delivering them to our subcontractors for production. Subcontractors were required to follow our set of quality control standards and provide us with quality testing reports. When the subcontractors delivered the finished products to us under the subcontracting arrangements, we performed standard quality review on the finished products and sold these products to our customers in accordance with the requirements of the sale and purchase contracts and the purchase orders we entered into our customers. We have approximately one to three years of business relationship with these subcontractors.

During each of the years ended 31 December 2011, 2012 and 2013, revenue from subcontracting-related orders amounted to approximately RMB31.2 million, RMB9.5 million and RMB1.5 million, respectively, which represented about 7.3%, 2.2% and 0.3% of our revenue during the relevant year. We incurred subcontracting fees of approximately RMB20.7 million, RMB4.7 million and RMB0.6 million, respectively, which represented about 6.9%, 1.5% and 0.2% of our cost of sales during the relevant year. The subcontracting fees were determined by reference to the complexity of the product concerned, costs of materials and other labour and utility costs. Our Group had no material dispute with the subcontractors during the Track Record Period.

Non-compliance with PRC applicable laws and potential breach of contracts with our customers

In preparation of the Listing, we engaged the PRC Special Counsel to advise us on the legality and contractual risks relating to the subcontracting arrangements we entered into during the Track Record Period. As advised by the PRC Special Counsel, certain subcontracting arrangements during the Track Record Period were not in compliance with PRC Tendering Laws and Regulations (《中華人民共和國招標投標法》). We have obtained written confirmation from 宜昌市工商局 (Yichang City State Administration of Industry and Commerce) (being the competent authority as advised by our PRC Special Counsel) that it will not impose any administrative penalty on our Group in relation to our historical non-compliant outsourcing activities. Please refer to the paragraph headed "Regulatory and Legal Matters — Non-compliance Incidents" below.

In addition to non-compliance with the applicable PRC Tendering Laws and Regulations, we were advised by the PRC Special Counsel that such subcontracting arrangements may have contravened the terms and conditions of the tendering documents of some of our paper cigarette packages customers, as a result of which we may be subject to contractual claims from our customers. The tendering documents of some of our paper cigarette packages customers prohibit the outsourcing of production of paper cigarette packages, and any contravention of such requirements may result in one or more of the following consequences: (i) our Group may be required to replace the outsourced products at our own costs; (ii) in the event that the customer's production was affected by the replacement of such outsourced products, we may be liable for all the loss suffered by such customer; (iii) our status as an approved supplier of our customer may be affected and/or our contract with the relevant customer may be terminated; (iv) we may be liable for all the losses suffered by the customer if the outsourced products fall below the agreed quality standards; and/or (v) we may have to indemnify the customer against any and all loss, damage, costs and expenses incurred or suffered by it arising out of our outsourcing activities.

As advised by the PRC Special Counsel, should any of the relevant customers bring contractual claims against us, we may defend against such claims on the following basis: (i) we have completed our contractual obligations to the relevant customers under the relevant sale and purchase contracts; (ii) the relevant customers have accepted our products for their own manufacturing activities, and our products have not resulted in any adverse effect on such customers' manufacturing activities; and (iii) the relevant customers have not incurred any loss or damages from or as a result of our outsourcing activities. Our PRC Special Counsel has further advised that should the aforesaid grounds for defence be accepted by the relevant PRC courts, our customers are unlikely to bring any successful claims against us.

Our Directors believe that, as (i) we have, as at the Latest Practicable Date, completed all of our production orders and contractual obligations under the relevant sale and purchase contracts entered into with such customers which outsourcing activities were involved; and (ii) our products have complied with quality standards and specifications stipulated under such sale and purchase contracts, the relevant customers have not suffered or incurred any actual loss or damage in connection with our outsourcing activities. Our PRC Special Counsel has advised that under the applicable PRC laws and regulations, if the relevant customers have not suffered or incurred any actual loss or damage resulting from our outsourcing activities, such customers will not be able to initiate any legal claim or action at the PRC courts. In the event that any of the relevant customers had suffered or incurred any actual loss, and successfully prove such loss in court, the maximum damages payable by us will be determined by the PRC courts based on the actual loss incurred by such customer. As at the Latest Practicable Date, we have not received any notice of claim made in relation to the above non-compliant outsourcing activities.

Our Controlling Shareholder, Mr. Yang, has agreed to indemnify our Group against any and all loss, damage, costs and expenses incurred or suffered by our Group arising out of our historical non-compliant outsourcing activities as detailed above.

Internal control measures

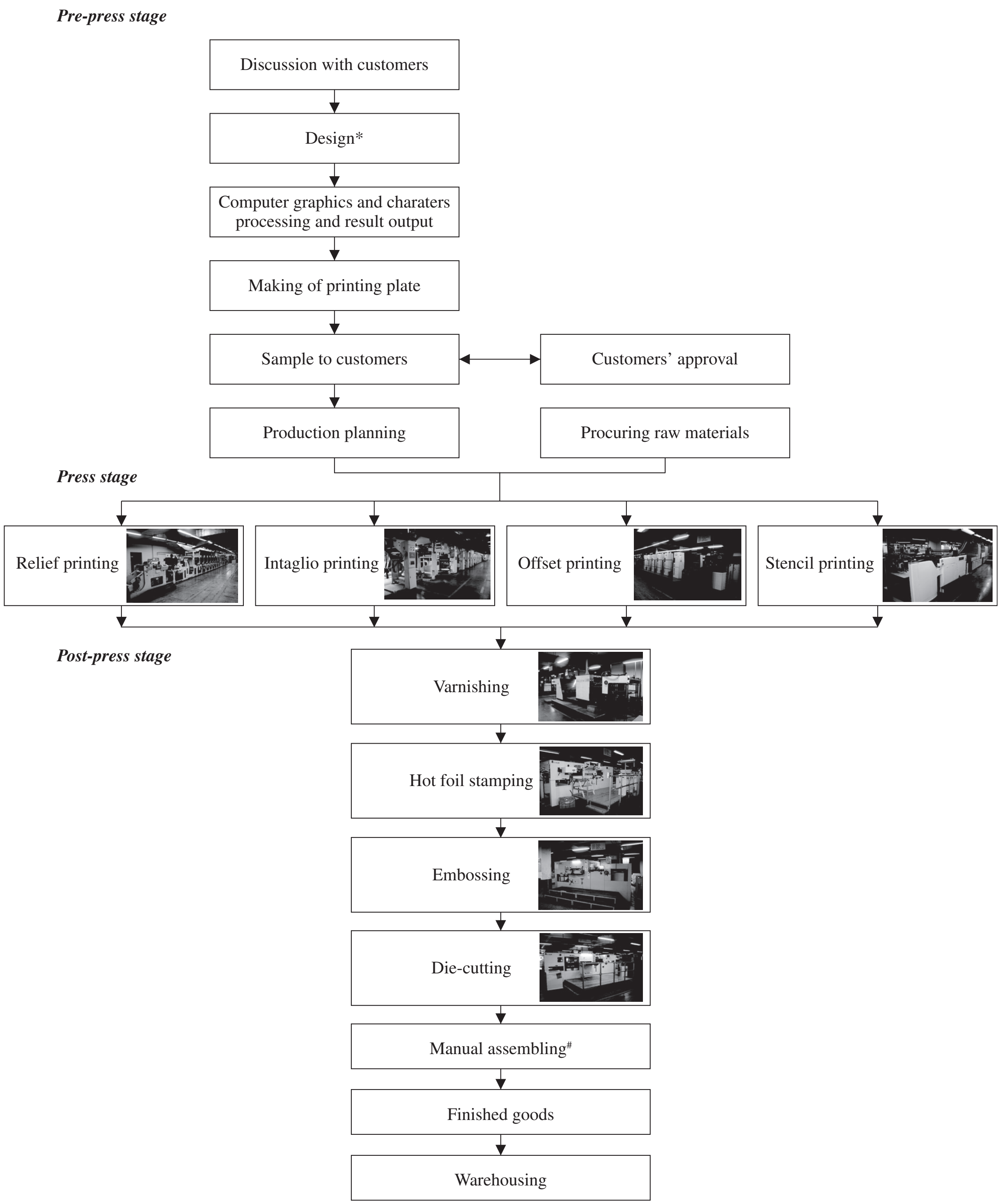
We have, since September 2013, ceased all outsourcing of our production activities and have produced all of our products at our own factories. We have adopted the following internal control measures to monitor and prevent future breach of contractual terms and conditions prohibiting outsourcing: (i) our Administration Department has issued a notice to all staff on 26 November 2013 regarding prohibition of production sub-contracting; (ii) to ensure that our production capacity will be sufficient to meet our customers purchase orders and delivery schedule, our Group has revised our Production Schedule Management Policy whereby confirmation of production capability by our Production Department is required before acceptance of customer orders; and (iii) our Group has also adopted measures to ensure that our Group's production capacity is sufficient for meeting customer orders through Customer Order Production Assessment Form and the Customer Order Contingency Plan.

Please refer to the paragraph headed "Business — Regulatory and Legal Matters — Non-compliance Incidents" and "Regulatory and Legal Matters — Internal Control Measures" in this section.

PRODUCTION PROCESS

Paper cigarette packages

The following chart illustrates the major production steps for the design and printing of packet packages and carton packages of our paper cigarette packages products:



* provision of our design service depends on specific requirements of our customers

\# may or may not be required, depending on the specifications of the products

Our Directors are of the view that we are capable of meeting different customer requirements given that we have a variety of printing equipment and machinery that is able to offer a variety of printing methods. The production process of paper cigarette packages may vary for individual designs, but can generally be divided into three stages, namely, pre-press, press and post-press, details of which are set out below:

Pre-press stage

Subject to requirements of our customers, the product design of paper cigarette packages are usually either (i) designed by our product design team of our technology center which communicates with the respective customers to understand their specific requirements as to product design specifications; or (ii) directly provided by customers. After discussion with our customers, our design team of our technology center finalizes the in-house design or obtaining the customer's design, we produce films and plates pursuant to the product design. A sample is produced through the pre-press process which involves the output of the graphics and characters and the transfer of them to printing plates. Samples are presented to customers for approval. Upon obtaining approval from customers on the sample, the production department formulates a production plan according to the quantity of orders received from the sales and marketing department and procures the necessary raw materials.

Press stage

There are four types of printing methods available to us, namely, relief printing, intaglio printing, offset printing and stencil printing. We decide the number and sequence of the printing methods according to the design and specifications of a particular product and requirements of the customer. During the printing process, ink will be applied on the plate and printed onto the laminated papers that pass through a set of printing units with different colours. A brief description of the printing methods is as follows:

- Relief printing refers to using the relief (a printing plate with convex graphics and characters) to print, which is a printing process where projected surface faces of the printing plate are inked while the recessed part of the printing plate is ink-free. The process involves inking the surface of the printing plate and bringing it in firm contact with the paper;

- Intaglio printing is the direct opposite printing method of relief printing, where the graphics and characters to be printed are incised into a surface of the printing plate. The printing process involves application of ink to the surface of the printing plate. Excess ink will be removed and then paper is placed on top of the printing plate to go through the press and a rolling press applies high pressure to press the paper onto the surface of the printing plate and then a printed image will be revealed on the paper;

- Offset print refers to printing technique in which the inked graphics and characters are transferred from a printing plate to a rubber blanket, and then to the printing surface; and

- Stencil printing uses finely-woven screen that is firmly stretched around to a rigid frame with areas that not intended to be printed masked out on the screen. To create the print, the framed screen is placed over the item to be printed, and a rubber roller is then used to press the ink through the screen. Images will be revealed on the areas of the paper which are not masked out on the screen.

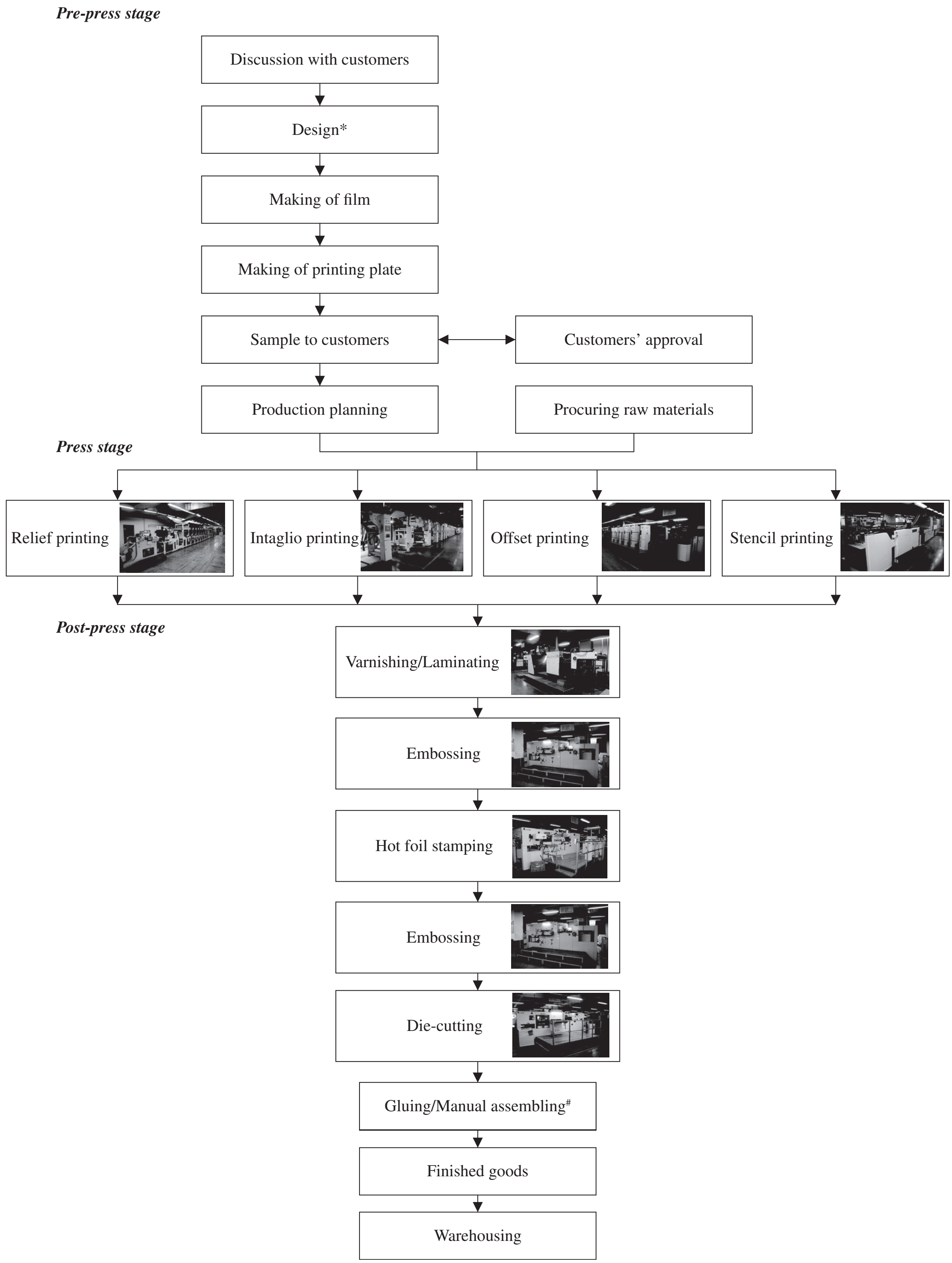
Post-press stage

During the post-press stage, depending on specific designs and specifications of our customers' products, we will carry out varnishing, hot foil stamping, embossing and die-cutting to enhance the printing results, and more importantly, to increase anti-counterfeit features and attractiveness of cigarette packages. The finished products of paper cigarette packages, which have not yet been folded into box shape, will be stored in the warehouse and/or delivered to customers.

Quality inspection will be carried out at various stages of our production to ensure that it meets the requirements of our customers. For details of quality control, please refer to the paragraph headed "Quality control" in this section.

Social product paper packages

The following chart illustrates the major production steps for design and printing of our social product paper packages:



* provision of our design service depends on specific requirement of our customers

\# depending on specific products

PROCUREMENT

Raw materials

Our Group sources our raw materials in the PRC. The major raw material used by our Group is paper. We also use other raw materials including ink and aluminum foil. The following table sets forth a breakdown of our Group's cost of raw materials during the Track Record Period:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*	*RMB'000*	*% of total cost of sales*
Paper	153,199	51.2	172,967	55.2	197,482	58.5
Others	49,172	16.4	53,701	17.1	64,582	19.1
Total	202,371	67.6	226,668	72.3	262,064	77.6

Major terms of supply contracts

The usual major terms of the supply contracts entered into between our Group and our top five suppliers are as follows:

Raw materials:	Ivory board or transfer paper
Trading terms:	The supplier shall supply such amount of raw materials as specified in supply orders, whether in one full batch or insufficient batches, and deliver the same on such date and warehouse as designated by our Group.
Price:	The unit prices of the raw material are stated in the supply contract/ framework supply contracts.
Quality requirements and inspection procedures:	The raw materials shall comply with the quality requirements and inspection procedures of our Group as set out in the relevant supply contracts.
Technology requirements:	The raw materials shall comply with the technical requirements of our Group as set out in the relevant supply contracts.
Environmental requirements:	The raw materials shall comply with the environmental requirements of our Group as set out in the relevant supply contracts.
Packaging requirements:	The raw materials shall comply with the packaging requirements of our Group as set out in the relevant supply contracts.

Credit terms:	The credit terms granted to our Group vary amongst different suppliers. The purchase prices are generally settled on a designated date in the immediately following month.
Delivery arrangement:	The supplier shall be responsible for the delivery of the raw materials to us and shall bear all loss and damage to the raw materials before such delivery.
Right of return:	Our Group shall inspect and check the quality and specifications of the raw materials within the period as designated in the relevant supply contract. In the event that there are quality or specification problems in the raw materials, the raw materials shall be returned and replaced within a given time as stated in the supply contracts.
Minimum purchase requirement:	There is no minimum purchase requirement. The purchase amount is determined at our Group's discretion and set out in each order made by us. The minimum purchase for each order is usually 0.4 tons per order.

Sourcing of paper and the price trend

The types of paper we procure consist of transfer paper, ivory board, coated paper and other papers. Our purchase of paper accounted for approximately 75.7%, 76.3% and 75.4% of our total cost of raw material for the years ended 31 December 2011, 2012 and 2013, respectively. Our Group procured approximately 14,176 tons, 14,791 tons and 18,485 tons of paper (including the amount of paper we purchased from our former subsidiary Hubei Mengke). The purchase of paper from Hubei Mengke amounted to approximately RMB75,420,000, RMB62,535,000 and RMB93,742,000, representing approximately 34.7%, 26.3% and 33.3% of the total purchases (without eliminating the purchase from Hubei Mengke) for the three years ended 31 December 2011, 2012 and 2013, respectively.

As compared to the descending market price for paper, which witnessed a CAGR of –1% to –7% from 2010 to 2013, our average procurement price of paper was generally on a gradually decreasing trend. Our average procurement price of paper were approximately RMB11,701 per ton, RMB10,856 per ton, RMB11,665 per ton and RMB11,127 per ton for the four years ended 31 December 2010, 2011, 2012 and 2013 respectively. Our average procurement price of paper in year 2011 was particularly low as compared to the previous year mainly due to the paper we procured in 2011 consisted of a lower portion of transfer paper which had a higher unit price. Our Directors consider that the pricing trend for our procurement of paper is generally in line with the market pricing trend for paper. For further details of the raw material prices, please refer to the section headed "Industry Overview — Prices of Most Raw Materials Recovered in Recent Years" in this prospectus. For further details of the impact of change in paper price on our Group's financial performance, please refer to the section headed "Financial Information — Principal Factors Affecting Our Results of Operations — Costs of raw materials".

In order to mitigate the impact of any price fluctuation of the major raw materials on the business of our Group, our procurement team, comprising staff responsible for procurement, officer from our finance department and factory managers, is responsible for monitoring the price trend of major raw materials through, among others, market intelligence and communication with our suppliers from time to time. The procurement team will provide feedback on the price to other teams. After taking into account, among others, the price trend, the existing level of raw materials, the sales orders received and prospective sales orders, the procurement team will formulate procurement plan.

Selection of major suppliers

We usually select several alternative suppliers for paper, ink and aluminum foils at similar quality and price levels by tendering. This enables our Group to procure raw materials from alternative suppliers in the event that, where any of our suppliers sets the prices above our acceptable level, or there is a shortage or delay in the supply, or in the event where a supplier fails to deliver raw materials according to our procurement plan or fails to meet our quality requirements. Furthermore, during the Track Record Period, we implemented various measures to tighten our control on the production, including but not limited to (i) imposing more stringent requirements for inspection of finished goods from production; (ii) holding the relevant production staff accountable for any abnormal wastage of raw materials during production; and (iii) assessing the fulfillment of pre-determined levels of passing rate of finished goods and wastage of raw materials in the performance appraisal of production staff. We have a set of procedures on operation costs control and to identify any possible cost overrun, which allows us to timely resolve the problem at an early stage. During the Track Record Period, we had not experienced any major operational issues due to the price fluctuation.

For those major raw materials, we usually obtain quotations from at least two potential suppliers. Although we have implemented a tendering system, we set a price range in our tender in order to prevent any vicious competition. Since we are also subject to our customers' tender systems, it is not possible for our Group to pass any increase in costs to our customers. For details, please refer to the section headed "Risk Factors — Risk Factors Relating to Our Business — Any price fluctuations of raw materials, especially paper used in our production processes may increase our production costs" in this prospectus. We do not currently engage in any transactions to hedge against risks relating to fluctuations in the raw materials.

We are required to source our paper from certain designated suppliers in relation to our products supplied to China Tobacco Chuanyu, Heilongjiang Tobacco Industrial and China Tobacco Yunnan. As at the Latest Practicable Date, China Tobacco Chuanyu had designated two paper suppliers; while Heilongjiang Tobacco Industrial had designated one paper supplier (which was also one of the paper suppliers designated by China Tobacco Chuanyu) in their respective tender invitation documents. China Tobacco Yunnan had designated two paper suppliers.

Apart from one supplier, our business relationships with all of our top five suppliers during each of the three years during the Track Record Period ranged from three years to ten years. Our Directors believe that maintaining stable relationships with our major suppliers is crucial in our operation as this will enable us to have a stable source of quality raw materials. While we have not entered into any long term supply contracts with our suppliers, we believe that we will be able to continue to maintain stable relationships with our major suppliers. During the Track Record Period, we did not encounter any difficulty in procurement nor experienced any production disruption due to shortage of raw materials.

With credit periods ranging from 60 days to 90 days generally and the price payable to our suppliers are generally settled by acceptance notes or bank remittances.

Apart from Hubei Mengke, which was held as to 75% by Hubei Golden Three Gorges and 25% by Medicon immediately prior to the commencement of the Track Record Period until all equity interests were disposed of by our Group and Medicon in 2013 (for details of the disposal of Hubei Mengke, please refer to the section headed "History, Reorganisation and Group Structure — Disposal of Subsidiary — Hubei Mengke" of this prospectus), all of our five largest suppliers during the Track Record Period were Independent Third Parties. The table below sets out the background of our five largest suppliers (nine in total during the Track Record Period), the length of relationship with our Group, the credit terms and the types of raw materials purchased from those suppliers during the Track Record Period:

Name of Suppliers	Background	Length of relationship	Credit terms	Types of raw materials purchased	Year in which the supplier was one of our Group's five largest suppliers	Designated suppliers
Hubei Mengke	A PRC company mainly engaged in the manufacture and sales of transfer paper	2005	Within 60 days after billing	Paper	2013	No
Supplier A	A PRC company mainly engaged in the manufacture and sales of packaging paper	2011	Within 90 days after receipt of bill	Paper, aluminum foils and ink	2012	No
Supplier B	A PRC company mainly engaged in the manufacture and sales of ivory board	2004	Within 90 days after billing	Paper	2011, 2012 and 2013	Yes
Supplier C	A PRC company mainly engaged in the manufacture and sales of ivory board and transfer paper	2005	Within 30 days after delivery	Paper	2011, 2012 and 2013	Yes
Supplier D	A PRC company mainly engaged in the sales of the imported paper	2006	Within 60 days after billing	Paper	2012 and 2013	Yes
Supplier E	A PRC company mainly engaged in the manufacture and sales of paper	2003	Within 30 days after receipt of bill and delivery	Paper	2011 and 2012	No
Supplier F	A PRC company mainly engaged in the manufacture and sales of paper, ink and other products	2006	Within 30 days after receipt of bill	Ink, aluminium foil	2011	No
Supplier G	A PRC company mainly engaged in (i) research and development; and (ii) the manufacture and sales of paper	2011	Within 60 days after receipt of bill	Paper	2011	No
Supplier H	A PRC company mainly engaged in (i) research and development; and (ii) the manufacture and sales of paper	2013	Within 30 days after receipt of bill	Paper	2013	No

During the Track Record Period, our Group purchased all our raw materials in the PRC and all our Group's purchases were all settled in RMB. For major raw materials, including paper and aluminium foils, we are usually required to settle the purchase price within three months after the delivery of the same to us. Some suppliers however require us to settle the purchase price in advance before delivery of raw materials to us.

For the three years during the Track Record Period, our total cost of sales in raw materials amounted to RMB202.4 million, RMB226.7 million and RMB262.1 million respectively. During the same period, our purchases from our largest supplier amounted to approximately RMB9.9 million, RMB24.6 million and RMB83.3 million respectively, which accounted for approximately 7.0%, 14.0% and 30.7% of our Group's total purchases from Continuing Operations respectively. During the same period, purchases from our five largest suppliers amounted to approximately RMB39.2 million, RMB61.1 million and RMB135.5 million respectively, which accounted for approximately 27.6%, 34.9% and 50.0% of our Group's total purchases from Continuing Operations respectively. Our five largest suppliers during the Track Record Period comprised nine different companies, all of which are based in the PRC. Apart from Hubei Mengke, which was held as to 75% by Hubei Golden Three Gorges and 25% by Medicon immediately prior to the commencement of the Track Record Period until all equity interests were disposed of by our Group and Medicon in 2013 (for details of the disposal of Hubei Mengke, please refer to the section headed "History, Reorganisation and Group Structure — Disposal of Subsidiary — Hubei Mengke" of this prospectus), none of our Directors, their respective associates, nor Shareholders who own more than 5% of the issued share capital of our Company, has any interest in the five largest suppliers of our Group during the Track Record Period.

The sensitivity analysis of the changes in our gross profit and gross profit margin of our paper cigarette packages in the event that there is a 5%, 7.5% or 10% increase or decrease in the prices of paper (while keeping other factors constant, including but not limited to the prices of the other raw materials) during the Track Record Period are set out in the section headed "Financial Information — Principal Factors Affecting Our Results of Operations — Sensitivity Analysis" in this prospectus.

Utilities

Our major utilities used in our production process are electricity, water and steam. Electricity purchased by our Group's amounted to approximately RMB10,163,000, RMB11,296,000 and RMB12,057,000 for each of the years ended 31 December 2011, 2012 and 2013, respectively, accounting for approximately 3.4%, 3.6% and 3.6% of our cost of sales during the same periods. Our Directors confirm that we did not experience any material disruption to its utilities supply during the Track Record Period.

INVENTORY CONTROL AND DELIVERY ARRANGEMENT

Inventory control

Our Group's inventory mainly comprises raw materials, work in progress and finished goods. We maintain close relationships with our customers and our customers usually inform our Group their production or order schedules for the upcoming week or month, such that our Group can plan our procurement schedules and liaise with our suppliers in advance.

We formulate our procurement schedule with reference to the prices of raw materials, the delivery time of our suppliers and the production cycle of our customers. We generally maintain inventory level of raw materials of around one to two months in order to ensure stable operations. Where three of our customers specifically request certain raw materials to be used, the procurement of such raw materials will be made upon receiving the customers' purchase orders. Based on our experience and understanding of the seasonal demand of the industry, we have adopted a series of measures to facilitate our planning of procurement schedule and optimising our inventory level (i) we liaise with our suppliers in advance for the procurement of larger quantity of raw materials before its peak seasons; (ii) we share certain raw materials amongst different orders and thus new orders can usually utilise raw materials procured for similar orders that have not yet been utilised; and (iii) our Group can procure raw materials from abundant number of suppliers which are close to our facilities in a prompt manner. Taking into account all of the above, amongst others, we will adjust our production schedule to maintain an appropriate level of inventories.

We did not experience any shortage or delay in the supply of raw materials during Track Record Period that would materially affect our business operation.

Our inventory of finished goods comprises both paper cigarette packages and social product paper packages awaiting for delivery to our customers. Our staff periodically reviews the inventory record to ensure that appropriate level of inventories is maintained. Raw materials, work in progress and finished goods are all stored under suitable and controlled environment to maintain their quality. Our inventory balances for Continuing Operations as at 31 December 2011, 2012 and 2013 were as follows:

	As at 31 December					
	2011		**2012**		**2013**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Raw materials	36,224	54.0	36,718	60.2	38,466	54.5
Work in progress	5,647	8.4	10,347	17.0	9,985	14.2
Finished goods	25,273	37.6	13,925	22.8	22,088	31.3
Total	67,144	100	60,990	100	70,539	100

The following table sets out our average inventory turnover days for the years indicated:

	Year ended 31 December		
Continuing Operations	**2011**	**2012**	**2013**
	Day	*Day*	*Day*
Average inventory turnover days[(Note)]	78	75	71

Note: Average inventory turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of inventories balance from our Continuing Operations of the respective year divided by cost of sales of the respective year and multiplied by 365 days.

The decrease in the average turnover days from 2011 to 2012 was mainly attributable to the lower amount of inventories as at 31 December 2012 due to the increase in sales near the end of 2012. The average inventory turnover days further decreased from 2012 to 2013 mainly attributable to the increase in sales in 2013 and the improvement of inventory control. We strive to maintain our inventory turnover days at around 70 days.

As at 30 April 2014, around 72.4% of our inventories as at 31 December 2013 were subsequently consumed and sold.

Delivery arrangement

Our suppliers are responsible for the delivery of raw materials to us and, after production, we arrange for delivery of all our finished goods to our customers at our own cost. During the Track Record Period, we engaged logistics service providers, who were Independent Third Parties, for all the delivery of finished goods to our customers. We generally did not enter into long term service contracts with the logistics service providers. The logistics service providers are responsible for the safe delivery of the finished goods and would bear the losses should the finished goods be damaged during delivery. We have also requested the logistics service providers to maintain delivery insurance to further enhance the protection against potential accidental losses to the finished goods during delivery. The delivery destinations are located in different provinces in the PRC, depending on the location of the customer. The deliveries were primarily by road and the delivery expenses amounted to approximately RMB7.2 million, RMB7.3 million and RMB8.3 million for each of the years ended 31 December 2011, 2012 and 2013, respectively. We did not experience any material loss associated with product delivery.

QUALITY CONTROL

Our Directors believe that delivery of quality products to our customers according to the agreed production plan and delivery schedule is crucial to our development and success. Any defects in our products may lead to our customers returning the products to us and claiming compensation, and may result in financial loss and damage to our brand image and reputation. To maintain the competitiveness of our products, we have adopted and maintained an effective quality control system covering all the major production stages from the procurement of raw materials to delivery of the products to our customers. Our Group has also obtained certification of quality management system of ISO9001.

Procurement of raw materials

We usually select our suppliers based on the quality of raw materials supplied, pricing, production capacity, marketing history and quality assurance system to ensure we procure raw and auxiliary materials of good quality, as an initial step towards ensuring the high quality of our products. We have a set of internal manual on procurement standards of raw materials. When raw materials are delivered to our factories, our quality control staff selects samples and inspects raw materials with regard to their condition such as the surface quality of paper, the colour of the aluminium foil and ink and the VOC levels. We also review the quality testing reports provided by our suppliers. Raw materials that do not meet the requirements set by us are returned to the relevant suppliers.

We communicate and verify product specifications and requirements with our customers before manufacture to ensure pre-production effectiveness. We also conduct pre-production technical testing to set the standard known by our manufacturing personnel before mass manufacture.

Inspection of equipment and machinery

Our engineering department is responsible for conducting management, examination and maintenance of our machinery and equipment with professional technology from time to time in order to ensure their proper functioning and safe operations, thus enhancing our productivity and product quality. We have a set of internal guidelines on the maintenance of equipment. We plan our production schedule by taking into account, amongst other factors, the required routine maintenance so as to minimise any material impact on our Group's operation and financial performance. During the Track Record Period, we carried out periodic inspection of machinery and equipment. We also conduct regular maintenance during holiday periods in our Yichang Factory and our Dangyang Factory. The time slots of maintenance are not fixed and are adjusted depending on the production plans of our Group.

Production process

We have compiled a set of internal manual on standards for testing of product quality and these are implemented in each stage of the production process. In the pre-press stage, our quality control staff inspect the samples before delivering them to the customers. From the press stage to the post-press stage, workers carry out self-check of work in progress, such as the colour and surface effects after different printing procedures and the quality of paper edges after die-cutting procedures. We also assign specific staff to conduct random inspection to identify possible defects. Our staff are required to record the conditions of the work in progress.

In addition to visual inspection, our quality control staff uses monitoring machinery to examine the quality of finished goods, such as the coloring and positioning of artwork and the amount of VOC levels, before delivering the products to our customers. Defective work in progress or finished goods found during the production process will be recorded and be disposed of by our quality control staff.

Internal training and award-and-punishment system

We provide training to our production staff from time to time in order to update them on production techniques and the latest technology. We will also update our production staff in relation to any quality issues arising either from our inspection during our production process and/or feedback from our customers.

With a view to increase the incentive of each of our production staff to produce quality products and actively participate in quality control, we have established an internal award-and-punishment system. Our Group's staff manual sets out a scale and the basis upon which the workers will be awarded for making contribution to quality control or penalised for making substantial mistakes.

Our quality control team

Our Directors consider that our quality control system has enabled us to produce quality packaging materials and respond rapidly to changes in customer demand, as we are able to identify which part of the production process should be modified in order to meet the requirement of our customers. As at the Latest Practicable Date, we had a team of 34 quality control staff, which is led by our Mr. Yu Tianbing, one of our senior management. For details of Mr. Yu's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus. Our quality control members acquired appropriate technical skills by receiving trainings upon joining and provided by our Group from time to time. Some of them also received trainings offered by product quality certification or training centers and obtained the internal auditor qualification certification.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to material claims for compensation due to product flaws or defects.

PROPERTIES

As at the Latest Practicable Date, we have obtained the land use rights to our Yichang Factory and Dangyang Factory with a site area of about 57,050.4 sq.m. and 43,873.2 sq.m respectively. As at the Latest Practicable Date, we also leased one property with a gross floor area of approximately 905 sq.ft. in Hong Kong as our principal place of business in Hong Kong and some dormitory units having a total gross floor area of about 5,870 sq.m. in Yichang as staff dormitory.

A summary of the properties owned and leased by us in the PRC and in Hong Kong is set forth below:

(a) Property interests owned by us in Hubei Province, the PRC

Location	Use	Site area *(sq.m.)*
No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC	Production, storage and office	57,050.4
No. 1 Hangkong Road, Dangyang, Hubei Province, the PRC	Production, storage, dormitory and office	43,873.2

(b) Property interests contracted to be disposed of in Hubei Province, the PRC

Location	Use	Site area *(sq.m.)*
A parcel of industrial land located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC	Industrial	18,273.77

(c) Property interests leased by us in Hubei Province, the PRC

Location	Use	Gross floor area *(sq.m.)*
125 dormitory units in a dormitory building located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC	Dormitory	5,870

In connection with the disposal of Hubei Mengke, we entered into a number of sale and purchase agreements with Hubei Mengke in May 2013 to dispose of a parcel of land, together with the staff quarters and certain equipment located on it, to Hubei Mengke at the consideration of RMB17.8 million. The transfer of the equipment and staff quarters was completed in 2013 and the transfer of the land is expected to be completed in the third quarter of 2014. As our Group used to share the staff quarters with Hubei Mengke before the disposal of the respective land, we entered into a lease agreement for the use of a portion of the staff quarters.

(d) Property interests leased by our Group in Hong Kong

Location	Use	Gross floor area *(sq.ft.)*
Suite 3212, 32nd Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong	Commercial offices	905

Further details of our Group's property interests are set out in the valuation report prepared by Castores Magi (Hong Kong) Limited, an independent valuer, in Appendix III to this prospectus.

Buildings without building ownership certificates

As at the Latest Practicable Date, we occupied two buildings with an aggregate floor area of approximately 259.89 sq.m., for which we had not obtained the construction planning permits (建設工程規劃許可證) and the building ownership certificates. Such buildings were used as boiler room and store room. We have submitted an application to apply for the construction planning permits and will, as soon as the construction planning permits are issued, apply for the building ownership certificates of the above buildings.

On 24 March 2014, Yichang City Planning Bureau, Gaoxin District Sub-Bureau (宜昌市規劃局高新區分局) issued relevant confirmation letters, confirming that (i) the two buildings did not create any obstacles to the community or pose any threat; (ii) the application for the construction planning permits of the two buildings had been accepted; (iii) no actions shall be taken to impose administrative penalties, demolition within specified time or forfeiture of the buildings; and (iv) there is no obstacle in applying for such construction planning permits.

Our PRC Legal Advisers also consider that (i) there will be no legal obstacles for us to obtain the construction planning permit of such buildings; (ii) we are entitled to use such buildings and would not be penalized for the construction and use of the building; and (iii) the buildings will not be demolished.

The above buildings, collectively, are not material to our business. As (i) there will not be any legal obstacles in obtaining the land use planning permit; and (ii) we have obtained confirmations from competent authorities that we will not be penalized for occupying, constructing and/or using the relevant land and buildings and that we may continue to occupy and use the relevant land and buildings, we do not expect the lack of building ownership certificates to have any material adverse affect on our business or trading position.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we are the registered owner of 21 patents. Amongst which, we have obtained 11 utility patents in the PRC, including device for treating VOCs in cigarette packs (煙標VOCs處理裝置), direct mould pressing sub-image anti-false packing material (直接模壓潛像防偽包裝材料) and various methods of opening cigarette boxes. We also hold eight design patents for our cigarette cases and Ms. Song is listed as one of the designers. In addition. we hold two invention patents for anti-counterfeiting packing material with directly molded latent image and preparation method thereof (直接模壓潛像防偽包裝材料及其製備方法) and slide cigarette popping type cigarette box (滑動彈煙式香煙盒).

We have also registered the trademark in the PRC and Hong Kong and domain name of www.jiayaoholdings.com which is used as the website of our Group.

None of the members of our Group was involved in any litigation in the PRC and Hong Kong relating to the infringement of any intellectual property rights belonging to third parties in respect of our products during the Track Record Period, and none of them had received any notice of any infringement of intellectual property rights up to the Latest Practicable Date.

For further details of our intellectual property rights, please refer to the paragraph headed "Intellectual property rights" set out in Appendix V to this prospectus.

COMPETITION

Our Group primarily competes with domestic paper cigarette packages manufacturers of various scales. In general, our Directors consider that the number of competitors in the paper cigarette packages industry is limited by several industry entry barriers including:

- the substantial initial capital investment required to possess suitable plant, equipment and machinery to produce quality products that can meet customer demands;
- the requirement of industry knowledge, technical know-how and product design capability to understand and satisfy the needs of customers;

- the requirement of business relationship with cigarette manufacturers to secure a stable network of customers to facilitate the maintenance and development of business;
- the requirement of significant time for cigarette manufacturers to assess the new paper cigarette packages producer before granting "approved supplier" status to such producer; and
- the tendering process that a new paper cigarette packages producer needs to go through in order to procure orders.

For further details of the competitive landscape and our market position in the PRC paper cigarette packages market, please refer to the section headed "Industry Overview" in this prospectus.

Despite the existence of entry barriers and the recent government led consolidation, our Directors are of the view that the paper cigarette packages industry in the PRC is still fragmented with a large number of manufacturers. There are over 100 scaled companies in the PRC that place heavy concentrations on cigarette packaging and thousands of small to medium-sized packaging manufacturers that also claim an involvement and availability for cigarette packaging. We, therefore, face intensive competition with the large number of competitors in the paper cigarette packages market in the PRC. For example, there are over 40 paper cigarette packages suppliers that supplied paper cigarette packages to China Tobacco Hubei, one of our main customers during the Track Record Period, in 2012. Further, if cigarette manufacturers carry out vertical integration and produce paper cigarette packages themselves, the business of our Group may be adversely affected. Please refer to the paragraph headed "Risk Factors — Risk Factors relating to Our Business — We face increased market competition and exposure to different market risks arising from the adoption of the tendering system by PRC cigarette manufacturers" for further details. However, our Directors consider that we are capable of competing and has growth potential in the industry given the competitive strengths as detailed in the paragraph headed "Competitive Strengths" in this section.

AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of awards and recognition in respect of, our business operation, quality management system and credit rating. Set out below are some of the major awards and recognitions we have obtained in recent years:

Award or recognition	Awarding body	Year of issue
National Printing Enterprise (國家印刷示範企業)	State Administration of Press, Publication, Radio, Film and Television of the PRC (國家新聞出版廣電總局)	2013
Advanced Unit for Safe Production in 2012 (2012年度安全生產工作先進單位)	Safety Production Committee of Gaoxin District of Yichang (宜昌高新區安全生產委員會)	2013

Award or recognition	Awarding body	Year of issue
High Technology Enterprise (高新技術企業)	Science and Technology Department of Hubei Province (湖北省科學技術廳), Department of Finance of Hubei Province (湖北省財政廳), Hubei Provincial Office, SAT (湖北省國家稅務局), Hubei Local Taxation Bureau (湖北省地方稅務局)	2012 and 2009
2010–2011 Grade A of Tax Credit Rating (2010–2011年全省納稅信用A級納稅人)	Hubei Provincial Office, SAT (湖北省國家稅務局), and Hubei Local Taxation Bureau (湖北省地方稅務局)	2012
The 4th Top 50 Printing Enterprises in Hubei (第四屆湖北印刷企業50強)	Hubei Provincial Press and Publication Bureau (湖北省新聞出版局)	2012
Tax Advanced unit in 2011 (2011年度納稅先進單位)	Hubei Yichang Economic Development Area, SAT (湖北宜昌經濟開發區國家稅務局)	2012
Advanced Unit for Safe Production in 2011 (2011年度全區安全生產工作先進單位)	Safety Production Committee of Gaoxin District of Yichang (宜昌高新區安全生產委員會)	2012
Prize for Outstanding Contributor of Press and Publications Industry in Hubei in 2011 (2011年度湖北省新聞出版突出貢獻獎)	Hubei Provincial Press and Publication Bureau (湖北省新聞出版局)	2012
2011 Outstanding Tax Contributor Unit of Hubei Yichang Gaoxin District (宜昌高新區2011年度納稅突出貢獻單位)	Administration Committee of Gaoxin District of Yichang (宜昌高新區管理委員會)	2012
Top 100 Printing Enterprises in China in 2012 (2012中國印刷企業100強)	Keyin Media — Printing Manager Journal (科印傳媒 — 印刷經理人)	2012
Top 50 Printing Enterprises in Hubei (the third evaluation) (第三屆湖北印刷企業50強)	Hubei Provincial Press and Publication Bureau (湖北省新聞出版局)	2011
Tax Advanced unit in 2010 (2010年度納稅先進單位)	Hubei Yichang Economic Development Area, SAT (湖北宜昌經濟開發區國家稅務局)	2011

Award or recognition	Awarding body	Year of issue
Excellence Packaging Prize for Yuxi Shang Shan — 2011 Masterwork Cup Paper Packaging prize (玉溪尚善 — 2011年長榮杯紙包裝精品大獎優秀包裝獎)	Masterwork Machinery Co., Ltd. and China Packaging Federation (天津長榮印刷設備股份有限公司、中國包裝聯合會)	2011
Top 100 Printing Enterprises in China in 2011 (2011中國印刷企業100強)	Keyin Media — Printing Manager Journal (科印傳媒 — 印刷經理人)	2011
Top 100 Printing Enterprises in China in 2010 (2010中國印刷企業100強)	Keyin Media — Printing Manager Journal (科印傳媒 — 印刷經理人)	2010
China Top 10 Cigarette Packaging Design Gold Prize for "步步高好貓" (步步高好貓榮獲中國十大煙標設計金獎)	China Tendering Weekly (中國招標週刊)	2010
The 8th China Printing & Packaging Products Quality Prize — Gold Award for "步步高好貓" (步步高好貓榮獲第八屆包裝印刷質量評比金獎)	Printing Committee of China Packaging Federation (中國包裝聯合會包裝印刷委員會)	2010

EMPLOYEES

As at the Latest Practicable Date, we had 947 employees. A breakdown of our employees by department as of the Latest Practicable Date is set forth below:

Department	Total number
Production	734
Technology center	51
Administration	57
Sales and marketing	35
Quality control	34
Procurement	7
Human resources	13
Finance	16
Total	947

A breakdown of our employees by geographical location as of the Latest Practicable Date is set forth below:

Location	Total number
Yichang	770
Dangyang	176
Hong Kong	1
Total	947

Our staff expenses from Continuing Operations were approximately RMB37.4 million, RMB34.0 million, and RMB40.5 million for each of the years ended 31 December 2011, 2012 and 2013, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not have any significant difficulty in recruiting employees nor have we faced any material labour disputes. We also engage additional employees for routine manufacturing processes in our factories during the peak season to meet the increased workforce requirement.

We place emphasis on training our employees such that they are equipped with the right set of skills and trained of the latest job requirements and experience. Our in house training to our employees includes introductory training for new employees, on-the-job training, team-building and communications skills training.

We determine the remuneration of our employee with reference to the market salary rate of their respective locations, experience and performance. In order to motivate our employees and attract talents, we have adopted the employee incentives schemes, being the Share Option Scheme and bonus sharing arrangements. The employee incentive schemes are available to our employees who are considered qualified for such incentives by the management members of our Group based on their performances during the year under review. The employee incentive schemes provide performance-based rewarding to allow our Group to reward the employees who have met performed. For details of the Share Option Scheme, please refer to Appendix V to this prospectus.

LABOUR AND SAFETY MATTERS

Our business and operations in the PRC are subject to various labour and safety laws and regulations in the PRC, which include, the Labour Law of the PRC (《(中華人民共和國勞動法》), the Law of the PRC on Employment Contracts (《中華人民共和國勞動合同法》), the Regulation on Occupational Injury Insurance (《工傷保險條例》), the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》). Please refer to the section headed "Regulatory Overview — Laws and Regulations in relation to Labour and Social Insurance" in this prospectus for further details.

We place great emphasis on compliance with the labour and safety laws and regulations in the PRC and have established necessary measures to comply with those laws and regulations. We participate in various mandatory insurance plans, including the pension insurance plan, unemployment insurance plan, maternity insurance plan, injury insurance plan and medical insurance plan as required by the relevant laws and regulations. We have established internal work place safety guidelines and conduct occupational safety trainings to promote safety awareness of our employees. We also have in place a system of recording and handling significant labour accidents. We had not experienced any significant labour accident which had a material adverse impact on us during the Track Record Period and up to the Latest Practicable Date.

The PRC Legal Advisers advised that, based on the confirmation letter issued by the relevant PRC authorities, save as disclosed in the paragraph headed "Regulatory and Legal Matters — Non-compliance Incidents" in this section, we have complied with all relevant mandatory local and national labour and safety laws and regulations during the Track Record Period and up to the Latest Practicable Date. No penalty has been imposed on us by the relevant PRC authorities in respect of our non-compliance of the labour, social insurance and safety matters during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL PROTECTION

Our Group understands and has always been aware of the increasing awareness of environmental protection from both the government and the customers and therefore pays close attention to ensure that our operations comply with the environmental protection laws and regulations in the PRC. Our Group's operations comply with the environmental protection laws and regulations in the PRC, including the PRC Law on the Prevention and Treatment of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) and Law of the People's Republic of China on the Promotion of Clean Production (《中華人民共和國清潔生產促進法》). Please refer to the section headed "Regulatory Overview — Laws and Regulations in relation to Environmental Protection" in this prospectus for further details. Our Directors are also of the view that our production process does not generate hazards that will cause any significant adverse impact on the environment. We also endeavour to implement more cost-effective and environmentally friendly printing technology and to comply with the environmental protection laws and regulation.

We have taken the following steps in relation to environmental protection:

- the production staff will ensure that the pollutant emissions during each production procedure will comply with the requirements of the PRC environmental regulations, such as measures have been taken to ensure that industrial wastes and by-products produced as a result of the operations are properly disposed of in order to minimise adverse effects to the environment;

- we have also arranged professional industrial wastage processor to collect pollutants produced by us during our operations, which primarily include waste paper and ink; and

- we endeavour to procure raw materials that are environmentally friendly.

We incurred environmental costs of approximately RMB354,000, RMB535,000 and RMB589,000 for each of the years ended 31 December 2011, 2012 and 2013, respectively.

We have passed the certification of environmental management system of ISO14001. Based on the confirmation letter issued by the relevant PRC authorities, the PRC Legal Advisers advised that we have complied with all relevant mandatory local and national environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date. No penalty has been imposed on our Group by the authorities in respect of any non-compliance of the environmental protection matters during the Track Record Period and up to the Latest Practicable Date.

OCCUPATIONAL SAFETY AND HEALTH MEASURES

We are subject to the relevant PRC laws and regulations regarding production safety, including the principle law governing the administration of production safety in the PRC, namely the Production Safety Law of the PRC (《中華人民共和國安全生產法》) which took effect on 1 November 2002. Please refer to the section headed "Regulatory Overview — Laws and Regulations in relation to Production Safety" in this prospectus for further details. In order to ensure occupational safety and health of our employees in the process of production, we have adopted various measures such as the provision of periodic training courses on installation of first-aid cases at production sites and use of labour protective equipment. We have also undertaken accidental insurance policies for our employees. Our Group has obtained certifications for the occupational health and safety management system of OHSAS18001.

There were no fatal accidents, health injuries, or any non-compliance incidents with the relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

During the Track Record Period, the insurance policies maintained by us primarily include (i) social insurance for its employees as required by the PRC rules and regulations; and (ii) integrated insurance for certain of its equipment and machinery. The insurance premium from Continuing Operations paid by us for each of the years ended 31 December 2011, 2012 and 2013 amounted to approximately RMB4,108,000, RMB4,812,000 and RMB6,089,000, respectively.

We do not maintain product liability insurance as it is not mandatory under the PRC laws and our Directors consider that it is not an established industry norm to maintain such insurance. During the Track Record Period and up to the Latest Practicable Date, we had not faced any material complaints about the quality of our products from customers, product claims or product recall, and we had not received any major complaints, material claims or liabilities as to our non-compliance with the requirements imposed by our customers in connection with social, health and safety issues that would materially and adversely affect our business or relationship with such customers, and there were no past incidents related to our product quality and/or product liability claims which had material impact on our Group.

The PRC Legal Advisers advised that, save as disclosed in the paragraph headed "Regulatory and Legal Matters — Non-compliance Incidents" below, during the Track Record Period, we have maintained employees' insurance policies that are mandatory under PRC laws. Moreover, our Directors consider that our insurance coverage is sufficient and in line with the general practice in the PRC.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against our Group or any of our Directors which could have a material effect on our Group's financial condition or results of operations. We were also not aware of any material claims, complaints, investigation or regulatory action pending or threatened against our Group or any of our Directors which could have a material effect on our Group's financial condition or results of operation.

REGULATORY AND LEGAL MATTERS

Licences and Permits

As advised by our PRC Legal Advisers, our Group has obtained all approvals, permits, consents, licences and registrations required for our business and operations and all of them are in full force and effect. In addition to the business licence, our Group has obtained the following licence which is significant to our operations:

Holder of licence	Type of licence	Date of issue	Expiry date	Scope
Hubei Golden Three Gorges	Printing Operation Licence (印刷經營許可證)	14 March 2013	13 March 2015	Packaging printing
Dangyang Liantong	Printing Operation Licence (印刷經營許可證)	6 March 2013	5 March 2015	Packaging printing

Since the establishment of each of Hubei Golden Three Gorges and Dangyang Liantong and up to the Latest Practicable Date, we have not experienced any failure in applying for the renewal of their respective printing operation licence.

We have adopted internal control measures to ensure that all the existing title certificates, licences, permits and approvals of Yichang Factory and Dangyang Factory remain valid during their respective operation periods, and all such certificates, licences and approvals have been obtained before the commencement of operation of the respective factory. We have also assigned designated staff to closely monitor the compliance status of each of our operating subsidiaries in accordance with the checklist.

Non-compliance Incidents

Our Group had not fully complied with certain PRC laws and regulations in the previous years, details of the relevant non-compliance events are set out below.

1. Non-compliance with regulations in respect of social insurance scheme

Summary of non-compliance matter:	Our Group is required under the relevant PRC laws and regulations to contribute to the social insurance scheme (such as pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) for the benefit of our staff. Our Group had not made social insurance contributions for certain temporary or part-time employees who had been employed only for short periods and left before our Group could make relevant contributions for them.
Identity and position of responsible personnel:	Ms. Liu Lu, the Human Resource Manager of Hubei Golden Three Gorges, was responsible for overseeing staff social insurance scheme matters during the relevant period.
Reason(s) for non-compliance:	The non-compliance incident was mainly due to the following reasons: (1) the relevant employees were temporary or part-time staff who were only employed for short periods of time and had left our Group before the relevant social insurance contribution arrangements can be made; and (2) the relevant system used by the relevant PRC authority for social insurance contribution registration could not register the said temporary and part-time employees for payment of social insurance contribution, therefore our Group was unable to make social insurance contribution arrangements for such employees.
Legal consequences and potential maximum penalties and other financial liabilities:	As advised by our PRC Legal Advisers, 宜昌市人力資源和社會保障局 (Yichang Human Resources and Social Insurance Bureau*) (being the competent authority as advised by our PRC Legal Advisers) may order us to pay (A) all outstanding social insurance contributions for the relevant employees in the amount of RMB50,167; (B) an overdue charge in the amount of RMB11,183; and (C) a penalty up to RMB150,501, being three times of the outstanding social insurance contributions of Hubei Golden Three Gorges. As at the Latest Practicable Date, our Group had not received any notice of claim or penalty in relation to the non-compliance incident.

Rectification action(s) taken and status:

Our Group has obtained written confirmations from each of Yichang Human Resources and Social Insurance Bureau and 當陽市人力資源和社會保障局 (Dangyang Human Resources and Social Insurance Bureau*) in March 2014 confirming, amongst other matters, that since the establishment of our PRC subsidiaries, each of them (i) has paid all social insurance contributions in accordance with applicable social insurance laws and regulations; (ii) has complied with applicable labour and social insurance laws and regulations; and (iii) has not been subject to any penalty or liability from the said PRC government authorities relating to any non-compliance with such laws and regulations.

Measures adopted to prevent future breach and ensure ongoing compliance:

Hubei Golden Three Gorges and Dangyang Liantong have established a Human Resource Management System. Our Human Resources Supervisor will update the status of new joiner or leaver. The updated staff record will be uploaded through the Social Welfare Insurance Online Declaration System on a monthly basis. Change of Employee Return (單位在職職工增減申報表) will be generated from our Human Resources Management System for submission to the Yichang Human Resources and Social Insurance Bureau and/or the Dangyang Human Resources and Social Insurance Bureau afterwards. Based on the staff record in our Human Resources Management System, our finance team will calculate social insurance of each staff in his monthly payroll report.

Hubei Golden Three Gorges and Dangyang Liantong will also engage the service of a human resources company to fulfill its needs for short-term employees. The human resources company will sign employment contracts with the relevant employees and be responsible for their social insurance contributions.

2. ***Non-compliance with regulations in respect of housing provident fund scheme***

Summary of non-compliance matter:

Our Group is required under relevant PRC laws and regulations to contribute to the housing provident fund scheme for the benefit of our staff.

Prior to May 2013, our Group had not established a housing provident fund account, nor had we contributed to the housing provident fund for our staff prior to 1 January 2013.

Identity and position of responsible personnel:	Ms. Liu Lu, the Human Resource Manager of Hubei Golden Three Gorges, was responsible for overseeing the housing provident fund scheme arrangements during the relevant period.
Reason(s) for non-compliance:	As the housing provident fund scheme arrangement varies from each province, the responsible personnel of our Group were unfamiliar with the then prevailing PRC legal and regulatory requirements. The non-compliance incident was due to inadvertent mistake of the responsible personnel.
Legal consequences and potential maximum penalties and other financial liabilities:	As advised by our PRC Legal Advisers, under applicable PRC laws and regulations, our PRC subsidiaries, Hubei Golden Three Gorges and Dangyang Liantong may be ordered by 宜昌市住房公積金管理中心 (Yichang Housing Fund Management Centre*) and/or its Dangyang office to contribute the outstanding housing provident fund of approximately RMB532,745 within a prescribed period, failing which it may face enforcement action by the PRC courts. As at the Latest Practicable Date, our Group had not received any notice of claim or penalty in relation to the non-compliance incident.

Rectification action(s) taken and status:

Our Group had established a housing provident fund account with the relevant authority in May 2013. At the time of establishing our housing provident fund account, we made inquiries with Yichang Housing Fund Management Centre regarding retrospective payment of the outstanding housing provident fund scheme contributions. We understand from the said authority that we could only make full payment of the housing provident fund for the year 2013, but we are unable to retrospectively settle outstanding housing provident fund scheme contributions incurred prior to 1 January 2013.

Hubei Golden Three Gorges has obtained written confirmation from Yichang Housing Fund Management Centre (being the competent authority as advised by our PRC Legal Advisers) dated 12 March 2014 confirming that, since May 2013, our Group has established a housing provident fund account at the said authority and has made full housing provident fund contributions up to the date of the letter. Dangyang Liantong has obtained written confirmation from 宜昌市住房公積金管理中心當陽辦事處 (Yichang Housing Fund Management Centre Dangyang office*) dated 6 March 2014 confirming that Dangyang Liantong has made full housing provident fund contribution since January 2013.

Measures adopted to prevent future breach and ensure ongoing compliance:

Hubei Golden Three Gorges and Dangyang Liantong have established housing provident fund accounts for their employees in May 2013 and have been making housing provident fund contributions for all employees since January 2013. When new employees are employed by our Group or upon termination of any staff employment, the Human Resources Supervisor of our Group will update the staff list for review by the Human Resources Deputy Manager and prepare the 住房公積金匯繳增加清冊 (List of Addition of Housing Provident Fund*) and prepare 住房公積金轉移清冊 (Transfer of Housing Provident Fund*), for submission to the Housing Provident Fund Administration Centre.

Our financial team will base on the staff record in our Human Resources Management System, calculate the housing provident fund contributions for each staff member in his monthly payroll report based on the staff record in our Human Resources Management System.

3. Non-compliance with 《貸款通則》(the Lending General Provisions)*

Summary of non-compliance matter:	During the Track Record Period (i) Hubei Golden Three Gorges had advanced to Maoming Company, a former equity holder of Hubei Golden Three Gorges, a loan in the amount of RMB30 million, which was interest-bearing at 7.5% per annum and repayable on 31 December 2012; and (ii) Hubei Golden Three Gorges had advanced to Hubei Mengke, a former subsidiary of Hubei Golden Three Gorges, two loans of an aggregate amount of RMB25 million, which were unsecured, interest- bearing at 7.2% per annum and repayable on 15 May 2013 and 25 March 2014 respectively. The total interest income derived from the about non-compliant loan agreements during the Track Record Period was RMB2.19 million. Details of the loans are set out in the section headed "Financial Information — Indebtedness — Amounts due from related parties" in this prospectus.
Identity and position of responsible personnel:	Ms. Cheng Ying, the Finance Manager of Hubei Golden Three Gorges, was responsible for overseeing the said loan agreements during the relevant period.
Reason(s) for non-compliance:	The relevant loan agreements were recognised in our Group's internal accounting records as advance between related parties of our Group rather than a lending to an entity, therefore the responsible officer was unaware of the legal implications of making such advance to the related parties. The non-compliance incident occurred mainly due to the responsible officer of our Group being unaware of the applicable legal requirements at the relevant time.
Legal consequences and potential maximum penalties and other financial liabilities:	As advised by our PRC Legal Advisers, according to the Lending General Provisions formulated by the People's Bank of China, Hubei Golden Three Gorges and Hubei Mengke may be subject to a fine in an amount up to five times of the income derived from such loan arrangements. The total interest income derived from the non-compliant loan agreements during the Track Record Period amounted to approximately RMB2.19 million, and we may face a total penalty for our breach of the Lending General Provisions of up to RMB10.95 million. As at the Latest Practicable Date, our Group had not received any notice of claim or penalty in relation to the relevant loan agreements.

Rectification action(s) taken and status:

Our Group has conducted an interview with the People's Bank of China Yichang Branch (being the competent authority as advised by the PRC Legal Advisers) in March 2014 during which the People's Bank of China Yichang Branch confirmed that as the Lending General Provisions were promulgated a long time ago, certain provisions therein may not be appropriate in view of current economic conditions.

Hubei Golden Three Gorges has obtained written confirmation from the People's Bank of China Yichang Branch confirming that it will not impose any penalty on Hubei Golden Three Gorges in relation to the non-compliant loan agreements as disclosed above.

Measures adopted to prevent future breach and ensure ongoing compliance:

Our Group has revised our Receipt and Payment Management Approval Policy to prohibit our Group from engaging in any lending activities with other enterprises. Before entering into any loan agreement, the relevant personnel shall complete the Contract Approval Forms which must be endorsed by our legal personnel.

4. Non-compliance with PRC Tendering Laws and Regulations

Summary of non-compliance matter:

During the Track Record Period, we outsourced production of certain cigarette packages to various cigarette packages printing companies. Certain purchase orders outsourced by us involved customers with whom we entered into sales contracts pursuant to the tendering process. According to PRC Tendering Laws and Regulations (《中華人民共和國招標投標法》), a successful bidder of a tender is required to produce its own products and is prohibited from outsourcing such production.

For further details of our outsourcing activities, please refer to the paragraph headed "Subcontracting" in this section.

Identity and position of responsible personnel:

Mr. Zhu Jiangtao, the Production Manager of Hubei Golden Three Gorges, was responsible for overseeing subcontracting arrangements during the relevant period.

Reason(s) for non-compliance:

The non-compliant outsourcing activities was mainly undertaken during peak seasons, or when our production capacity was insufficient to meet our customers' purchase orders and the required delivery schedule.

Legal consequences and potential maximum penalties and other financial liabilities:	As advised by our PRC Special Counsel, according to the PRC Tendering Laws and Regulations, a successful bidder that outsources all or part of any work won via tender to other parties shall be liable to a fine of up to 1% of the value of such tendered work. Any illegal gains arising from such work shall be confiscated. The business of the successful bidder may also be suspended. In extreme cases, the business license of a successful bidder who outsourced work won via tender may be revoked by the relevant government authority. Such bidder shall also be liable for any loss suffered by the relevant customer as a result of such outsourcing.
Rectification action(s) taken and status:	We have, since September 2013, ceased all outsourcing of our production activities and have produced all of our products at our own factories. We have also obtained written confirmation from 宜昌市工商局 (Yichang City State Administration of Industry and Commerce) (being the competent authority as advised by our PRC Special Counsel) that it will not impose any administrative penalty on our Group in relation to our historical non-compliant outsourcing activities.
Measures adopted to prevent future breach and ensure ongoing compliance:	Please refer to the paragraph headed "Subcontracting" in this section for details of our internal control measures to monitor and prevent future breach of contractual terms and conditions prohibiting outsourcing.

The PRC Legal Advisers have confirmed that, save as disclosed above, we have complied with relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. All of the above rectification measures relating to our historical non-compliance incidents have been fully implemented.

Our Controlling Shareholder, Mr. Yang, has agreed to indemnify our Group against any and all loss, damage, costs and expenses incurred or suffered by our Group arising out of or in connection with all of the non-compliance incidents set out above. On the basis that we have obtained written confirmations from the relevant competent PRC authorities that no penalty will be imposed on our Group in relation to the above non-compliance incidents, and in view of the indemnity given by our Controlling Shareholder, our Directors are of the view that our Group will not be exposed to any material liability or penalty in connection with the above non-compliance incidents, nor will the above non-compliance incidents have a substantial operational or financial impact on our Group. Accordingly, we have not made any provision in the financial statements of our Group.

In addition to the said specific internal control measures, our Group has also adopted the following internal control measures to prevent recurrence of our historical non-compliance incidents:

(i) we have appointed Ms. Yuan Qing as our Company's designated member to be responsible for ensuring proper implementation of our revised internal control measures and overseeing our compliance with relevant PRC laws and regulations and to liaise with our PRC legal advisers in relation to any compliance issues. Ms. Yuan has worked with our Group since 2004 in various positions, including as audit manager of Hubei Golden Three Gorges, and has extensive accounting and financial reporting experience;

(ii) we have adopted the Internal Control System Fundamental Policy, which requires an internal control assessment to be carried out semi-annually, whereby the internal audit department of our Group will also be required to review the areas with previous non-compliance issues (and other concerned areas) and report relevant findings to our Audit Committee; and

(iii) our Group has appointed a legal adviser to provide advice to our Group on legal compliance matters. On 30 November 2013, the legal adviser provided a training session to management and relevant personnel of our Group on regulatory compliance in relation to outsourced production, social insurance and housing provident fund contribution requirements and relevant requirements under the PRC Lending General Provisions.

Having considered the nature of our historical non-compliance incidents and the possible consequences as advised by our PRC Legal Advisers, the above internal control measures and rectification actions taken by us, our Directors are of the view, with which the Sole Sponsor concurs, that our historical non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed company under Rules 3.08 and 3.09 of the Listing Rules or suitability of our Company for listing under Rule 8.04 of the Listing Rules on the basis of the following:

- none of our Directors and senior management members as named in this prospectus was involved in our historical non-compliance incidents;

- each of our historical non-compliance incidents arose mainly due to unfamiliarity with relevant PRC legal and regulatory requirements or inadvertent errors made by our responsible staff at the relevant time, and such incidents do not involve any dishonesty on the part of our Directors or impugn on their integrity or competence;

- with respect to our historical non-compliance with social insurance scheme and housing provident fund scheme requirements, our Group has already rectified such non-compliance incidents by obtaining confirmations from competent PRC government authorities that our Group is not subject to any penalty or liability;

- with respect to our other historical non-compliance incidents, our Group has obtained confirmations from competent PRC government authorities that no administrative sanctions has been imposed on our Group in relation to such incidents;

- remedial internal control measures have been adopted to ensure our compliance with the Listing Rules and applicable laws and regulations in the PRC;

- our Directors and senior management have attended training programmes on applicable laws and regulations, including the Listing Rules and the relevant rules and regulations in the PRC relating to the operation of our Group; and
- our executive Directors' extensive experience in the cigarette-related packaging materials industry.

Internal Control Measures

We have engaged an independent external consulting firm as independent internal control consultant in June 2013. Pursuant to such engagement, the internal control consultant has conducted a review of the management and accounting procedures and internal control environment of our Group under the COSO framework. Our internal control consultant had highlighted certain deficiencies with respect to our internal controls, systems and procedures, and had further conducted a follow-up review of the highlighted deficiencies. The internal control review and follow-up review were conducted for the period from July 2012 to March 2014.

The significant deficiencies highlighted by the internal control consultant, other than those related to our historical non-compliance incidents set out in the paragraph headed "Non-compliance Incidents" in this section, the corresponding recommendations from the internal control consultant and the remedial actions taken by our Group between September 2013 and March 2014 are summarized in the table below. Based on the follow-up review conducted by the internal control consultant from February to March 2014, the internal control consultant has confirmed that our Group has implemented the remedial actions summarized in the table below as recommended by the internal control consultant.

	Highlighted Deficiencies	Recommendations from internal control consultant	Remedial Actions
1.	Our Company has not established our corporate governance policy, and relevant compliance and disclosure procedures to ensure our compliance with the Listing Rules.	Our Company should establish our corporate governance policy, and relevant compliance and disclosure procedures, including control and procedures in relation to the obligations of the Company and its directors to comply with the Listing Rules.	Our Company has established our Corporate Governance Policy (企業管治政策), and relevant compliance and disclosure procedures in relation to the Listing Rules (including Related Party Transactions Policy (關聯方交易制度), Continuous Disclosure Policy (持續披露政策), Shareholders Communication Policy (股東通訊政策), Procedures for Shareholders to Propose a Person for Election as a Director (股東提名個別人士候選董事的程序) and Code for Securities Transactions (證券交易守則)).

Highlighted Deficiencies	Recommendations from internal control consultant	Remedial Actions
2. Our existing Receipt and Payment Management Approval Policy (財務收支管理審批制度) did not provide adequate guidelines on cash advances to our employees due to special projects or marketing expenses of the Sales Operations Centre.	Detailed guidelines should be established to govern the cash advances to employees due to special projects or marketing expenses, in terms of the basis of determining the amount of the advances and the related monitoring procedures.	Our Group has revised our Receipt and Payment Management Approval Policy (財務收支管理審批制度) to enhance the approval and monitoring procedures of cash advances to our employees. Our Finance Department has to check and state the balance of previous cash advances made on the Advances Application Form (借支單) before it is subject to approval based on the amount of cash advances applied. In addition, our Group has also established our Sales Operations Centre's Expenses Approval Policy (營銷中心費用審批管理制度) to govern cash advances relating to our Sales Operations Centre's expenses. It includes the approval matrix for different types of expenses, and the basis for determining the amount of cash advances (e.g. by position of the employees and the types of expenses). The policy also provides guidelines for timely submission of claims and outlines the duties of managers and directors of our Sales Operations Centre in monitoring the settlement of cash advances.
3. There are no periodic user access reviews performed by our management to identify and rectify dormant accounts and accounts that are granted inappropriate rights for our key IT applications, (i.e. Yonyou U8 ERP System and Production Execution System).	Periodic user access reviews should be performed by our management on our key IT applications to ensure that the user rights assignments are appropriate and list of user IDs are current.	Our management has performed semi-annual user access reviews in July and December 2013 on our key IT applications.

The Sole Sponsor has conducted due diligence procedures on our Group's internal control systems, which includes reviewing policies, discussions with our management, reviewing the deficiencies and corresponding remedial actions taken by our Group as highlighted by the internal control consultant. The Sole Sponsor concurs with our Directors' view that our Group's internal control systems are adequate and effective to ensure ongoing compliance with applicable laws and regulations in the PRC and Hong Kong.

RISK MANAGEMENT

In the course of operating our business, our Group is exposed to various types of risks, including credit risk, liquidity risk, interest rate risk and currency risk, which are further elaborated below. Our executive Directors are responsible for overseeing and reviewing the implementation of our Group's internal control and risk management measures. For details of qualifications of our executive Directors, please refer to the section headed "Directors, Senior Management and Staff" in this prospectus.

Credit risk management

Our Group's credit risk is primarily attributable to trade and other receivables. Before accepting any new customer, our Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year. Our receipt of payment for most of our sales is subject to relevant customers being satisfied with our products, in particular the provincial tobacco industrial companies and China Tobacco Industry Development Center companies, which are PRC state-owned enterprises. Our Group has maintained long-term relationships with our customers and our customers' repayment history has generally been good. Generally, payments for our products are due within 30 to 90 days, which can be prolonged to 90 to 120 days (and 180 days for some of our major customers), and our Group does not obtain collateral over any trade and other receivables.

The maximum exposure of our Group to credit risk at the end of each financial reporting period is represented by the relevant carrying amount of each financial asset in the consolidated statements of financial position.

At the end of the reporting period, our Group has concentration of credit risk in relation to trade and note receivables. In order to minimise credit risk, our Group management has assigned a dedicated team to be responsible for determining credit limits, credit approvals and other monetary procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group has reviewed the recoverable amount of each individual debt at the end of each year during the Track Record Period to ensure that adequate impairment losses are made for irrecoverable amounts. As a result of these measures, our Directors are of the view that our Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are either state-owned banks or banks with high credit ratings located in the PRC.

Our Group is exposed to concentration of credit risk on the amounts due from directors and amounts due from a former non-controlling shareholder of a subsidiary. In order to minimise such credit, our Group continuously monitors the credit quality of the relevant individual and the level of our credit exposure to ensure that follow-up action is taken to recover overdue debts. In addition, our Group management reviews the recoverable amount of each individual advance balance at the end of each reporting period to ensure adequate impairment losses are made. As at 31 December 2013, there was no longer any amount due from directors and from a former non-controlling shareholder of a subsidiary. Our Group has established the Related Party Transactions Policy (關聯方交易制度) which prohibits any advances from/to directors or other related parties, other than any amount arise in the course of ordinary business.

Our Group has also established the Customer Credit Management Policy (客戶信用管理制度) to control our customer credit risk through the establishment and approval of credit limit and credit period for our customers. After the completion of customer analysis and gathering of the required information by our Marketing Department of the Sales Operations Centre, the Customer Selection Approval Form (客戶開發選擇評審表) attached with the relevant analysis and documents is submitted to the Head of Marketing Department, Head of Finance Department and General Manager for review and approval.

Our Group has also established the Sales Order and Settlement Risk Control Policy (銷售訂單及回款風險控制制度) to manage our accounts receivable. Our Finance Department prepares Monthly Accounts Receivable Report (應收賬款月報表) which reflects the aging records for each customer and identifies any outstanding payments which have exceeded the stipulated credit period. A summarized aging analysis of the accounts receivable is then prepared and included in the Efficiency Management Report (效益管理報告) for discussion at monthly management meetings. In addition, the expected payment status of each customer is also reviewed through preparation of the monthly Cash Flow Plan (資金計劃表) by the Marketing Department.

Liquidity risk management

To manage liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by our management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilisation of bank borrowings and ensures compliance with applicable loan covenants.

Our Group relies on bank borrowings as a significant source of liquidity. Our Group had available unutilised bank borrowings facilities of RMB170.1 million as at 30 April 2014.

Each Group department prepares, on a monthly basis, a departmental cash requirement plan for the coming three-month period, and such report is submitted for review by relevant department heads. Moreover, our cash management accountant consolidates the cash availability and requirement of each department and company within our Group, and prepares a group cash flow plan (資金計劃表) for review and approval by the Finance Director and General Manager.

Further quantitative disclosures in respect of the exposure of our Group to liquidity risk are set out in the section headed "Financial Information — Quantitative and Qualitative information about Market Risks" in this prospectus.

Interest rate risk management

Our Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings, whereas our Group's cashflow interest rate risk relates primarily to the fluctuation of RMB Benchmark Loan Rates offered by the People's Bank of China on our Group's bank borrowings. Our Company has no material interest rate risk exposure. Our Group closely and continuously monitors interest rate fluctuations and may adopt measures to hedge against interest rate risks.

Our Group's finance costs mainly comprise interest on bank and other borrowings wholly repayable within five years, finance costs arising on early redemption of note receivables and bank fees and charges, which represented approximately 3.8% and 5.2% and 4.5% of our Group's revenue during each of the years ended 31 December 2011, 2012 and 2013, respectively.

Our Group has established the Cash Flow Planning Management Policy (資金計劃管理辦法), which requires our Finance Department to assess the interest rate risks of our bank borrowings and bank balances, and take appropriate actions in mitigating interest rate risks.

As at 31 December 2011, 2012 and 2013, our Group's floating-rate bank borrowings amounted to RMB110.0 million, RMB170.0 million and RMB120.0 million, respectively. The effective interest rate of our Group's floating-rate bank borrowings increased by 105 basis points from 5.66% in 2011 to 6.71% in 2012 and then decreased by 73 basis points to 5.98% in 2013.

The table below sets out a sensitivity analysis illustrating the impact on our Group's profit for the year if the effective interest rate of our Group's floating-rate bank borrowings had been 50 basis points (0.5%) or 100 basis points (1%) higher or lower in the period indicated, assuming all other variables were held constant.

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
If the effective interest rate had been 50 basis points (0.5%) higher/lower			
Decrease/increase in profit for the year	481	644	726
Percentage decrease/increase in profit for the year	1.4%	1.3%	1.7%
If the effective interest rate had been 100 basis points (1%) higher/lower			
Decrease/increase in profit for the year	962	1,287	1,451
Percentage decrease/increase in profit for the year	2.7%	2.7%	3.3%

Currency risk management

Our Group's transactions were mainly conducted in RMB and the major receivables and payables of our Group are denominated in RMB. Our Group is subject to minimal foreign exchange rate risk arising from monetary assets, denominated in United States Dollars. Accordingly, our Group does not currently have a foreign currency policy.

Our Group has established a Cash Management Policy (現金管理制度), which requires our Group to minimize foreign currency rate risks through engaging in contracts denominated in RMB where possible. The policy also requires our Finance Department to utilize financial instruments for hedging against foreign exchange rate risk, where applicable.

FUTURE PLANS

Please refer to the section headed "Business — Business Strategies" in this prospectus for a detailed description of our future plans.

REASON FOR THE SHARES OFFER AND USE OF PROCEEDS

Our Directors consider that the net proceeds from the Share Offer, together with internally generated funds and the banking facilities available to our Group, will be sufficient to finance the future business development of our Group as described in this prospectus. The net proceeds from the Share Offer will strengthen our capital base and will provide funding for achieving our business strategies and carrying out its future plans as set out in this section.

Assuming an Offer Price of HK$1.23 per Offer Share (being the mid-point of the indicative Offer Price range of HK$1.00 to HK$1.46 per Offer Share), the net proceeds from the Share Offer are estimated to be approximately HK$53.4 million (equivalent to approximately RMB42.3 million) after deducting the underwriting fees and other estimated expenses in connection with the Share Offer, including an aggregate amount of approximately HK$24.3 million (equivalent to approximately RMB19.3 million) in settlement of listing expenses paid on our behalf by related parties prior to the Listing.

Our Directors presently intend to apply the net proceeds as follows:

(1) approximately HK$17.7 million (equivalent to approximately RMB14.0 million), representing approximately 33.1% of the net proceeds from the Share Offer, will be utilised for the technical advance, renewal and upgrade of existing equipment. For further details, please refer to the sections headed "Business — Business Strategies — To advance our machinery and equipment and to improve our production quality" and "Financial Information — Capital Expenditures" in this prospectus;

(2) approximately HK$12.1 million (equivalent to approximately RMB9.6 million), representing approximately 22.7% of the net proceeds from the Share Offer, will be utilised for the procurement and installation of new equipment and machinery for expanding our product variety and enhancing our production capability. For further details, please refer to the section headed "Business — Business Strategies — To enhance our product variety by further developing our social product paper packages" and "Financial Information — Capital Expenditures" in this prospectus;

(3) approximately HK$11.5 million (equivalent to approximately RMB9.1 million), representing approximately 21.5% of the net proceeds from the Share Offer, will be applied for the development of phase II of our Yichang production base for social product paper packages. For further details, please refer to the sections headed "Business — Production Facilities — Phase II of our Yichang Production Base" and "Financial Information — Capital Expenditures" in this prospectus;

(4) approximately HK$4.4 million (equivalent to approximately RMB3.5 million), representing approximately 8.3% of the net proceeds from the Share Offer, will be used on the enhancement of the design and development capabilities of our Group. Please refer to the section headed "Business — Business Strategies — To increase market penetration by enhancing our design and development capabilities" in this prospectus for further details;

(5) approximately HK$2.9 million (equivalent to approximately RMB2.3 million), representing approximately 5.4% of the net proceeds from the Share Offer, will be used for the expansion of the sales and marketing network of our Group in order to enhance our Group's relationship with the existing customers and explore business opportunities with potential customers. Please refer to the section headed "Business - Business Strategies — To strengthen our sales and marketing efforts by enhancing relationship with existing customers and developing business with potential customers" in this prospectus for further details; and

(6) approximately HK$4.8 million (equivalent to approximately RMB3.8 million), representing approximately 9.0% of the net proceeds from the Share Offer, will be used for general working capital purposes, including the repayment of shareholder loan amounting to approximately HK$0.9 million (equivalent to approximately RMB0.7 million) incurred by our Hong Kong subsidiaries as operating expenses, which is unsecured, interest-free and with no fixed term of repayment.

In the event the Offer Price is set at the high end of the indicative Offer Price range, being HK$1.46 per Offer Share, the net proceeds from the Share Offer will increase to approximately HK$70.7 million. In the event the Offer Price is set at the low end of the indicative Offer Price range, being HK$1.00 per Offer Share, the net proceeds from the Share Offer will decrease to HK$36.2 million. The amount of net proceeds proposed to be used for the items above will be increased or reduced (as the case may be) on a pro rata basis.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licenced banks and authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interests. We will also disclose the same in the relevant annual report(s).

DIRECTORS

The Board consists of 6 Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information relating to our Directors:

Name	Age	Year of Joining our Group	Present Position	Date of Appointment as Director	Roles and Responsibilities	Relationship with the other Directors
Executive Directors						
Mr. Yang Yoong An (楊詠安)	51	2001	Chairman and Executive Director	5 August 2013	Overall management and formulation of business strategy of our Group	Father of Mr. Yang Fan
Mr. Feng Bin (豐斌)	44	2008	Chief Executive Officer and Executive Director	24 March 2014	Overall financial and operation of our Group	N/A
Non-executive Director						
Mr. Yang Fan (楊帆)	27	2014	Non-executive Director	24 March 2014	Overseeing the general corporate, financial and compliance affairs of our Group	Son of Mr. Yang Yoong An
Independent non-executive Directors						
Mr. Gong Jinjun (龔進軍)	57	2014	Independent non-executive Director	5 June 2014	Serves on the remuneration and nomination committees; responsible for overseeing the management independently	N/A
Mr. Zeng Shiquan (曾石泉)	67	2014	Independent non-executive Director	5 June 2014	Serves on the audit and remuneration committees; responsible for overseeing the management independently	N/A
Mr. Wang Ping (王平)	43	2014	Independent non-executive Director	5 June 2014	Serves on the audit and remuneration committees; responsible for overseeing the management independently	N/A

Executive Directors

Mr. Yang Yoong An (楊詠安) (formerly known as **Yang An (楊安)**), aged 51, is the chairman of our Company. He is also a Controlling Shareholder. Mr. Yang was first appointed as a director of our Company on 5 August 2013, and was redesignated as our executive Director on 24 March 2014. Mr. Yang is responsible for the overall management and formulation of business strategy of our Group.

Mr. Yang had engaged in various businesses since the 1980s such as trading of fishery products and cigarette-related accessories products.

With the acquisition of the equity interests in Hubei Golden Three Gorges in 2001, Mr. Yang developed the business of production of cigarette packages in the PRC. In 2009, Mr. Yang became the chairman of Hubei Golden Three Gorges and he has been responsible for the overall day to day management of Hubei Golden Three Gorges.

Since 2012, Mr. Yang has been the vice president of the Hubei Province Guangdong Chamber of Commerce (湖北省廣東商會). Mr. Yang brings over 10 years of extensive business and management experience in commercial business to our management team. Mr. Yang is now a director of all our subsidiaries, and the legal representative of Hubei Golden Three Gorges and Dangyang Liantong. Mr. Yang has not been a director of any listed companies over the past three years. Mr. Yang is the father of Mr. Yang Fan.

Mr. Feng Bin (豐斌), aged 44, was appointed as our executive Director on 24 March 2014.

Mr. Feng is also the chief executive officer of our Company, primarily responsible for the overall financial and operation of our Group.

Mr. Feng graduated from the Southwestern University of Finance and Economics (西南財經大學) majoring in accounting in June 1992 through higher education self-taught examination. An accountant qualification was conferred on him by Ministry of Finance of the PRC in October 1994. In June 2008, Mr. Feng obtained a self-study undergraduate certificate (Adult Higher Education) in accounting from the Zhongnan University of Economics and Law (中南財經政法大學). In January 2011, Mr. Feng obtained a part-time master degree (professional degree) in executive management business administration from the Tsinghua University (清華大學).

Mr. Feng has more than 13 years of experience in the cigarette packaging trading field. From August 1987 to December 1989, Mr. Feng worked at 四川省德昌縣王所鄉政府 (Dechang Wangsuo Township Government*). From December 1989 to July 2002, Mr. Feng worked at 中共德昌縣委辦公室 (Committee Office of Dechang County*), during which Mr. Feng was attached to work at 四川省德昌縣菸葉複烤廠 (Sichuan Dechang Tobacco Redrying Factory*) as a factory manager from June 1996 to February 2001. From October 2005 to June 2008, Mr. Feng served as deputy general manager of 成都今辰科技發展有限公司 (Chengdu Jinchen Sci-Tech. Development Co., Ltd.*).

Mr. Feng joined Hubei Golden Three Gorges in March 2001 and was appointed as the chief financial officer and was the deputy general manager when he left Hubei Golden Three Gorges in 2005. Mr. Feng re-joined Hubei Golden Three Gorges in July 2008 as the deputy general manager and has been the general manager of Hubei Golden Three Gorges since February 2012. Mr. Feng is responsible for the financial and overall management of our Group.

Mr. Feng is now a director of each of Hubei Golden Three Gorges and Dangyang Liantong. He is responsible for the overall operation of our Group. Mr. Feng has not been a director of any listed companies over the past three years.

Non-executive Director

Mr. Yang Fan (楊帆), aged 27, was appointed as our non-executive Director on 24 March 2014.

Mr. Yang Fan obtained a Bachelor of Arts degree in economics from the University of Cambridge in June 2012. In August 2013, he obtained a Master of Science degree in financial economics from the University of Oxford.

Mr. Yang Fan has not been a director of any listed companies over the past three years. Mr. Yang Fan is the son of Mr. Yang. He is a director of Hubei Golden Three Gorges.

Independent non-executive Directors

Mr. Gong Jinjun (龔進軍), aged 57, was appointed as an independent non-executive Director on 5 June 2014, the chairman of the remuneration committee and a member of the nomination committee on 6 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Gong obtained a bachelor degree in economics and geography from Peking University (北京大學) in July 1982. He was accredited as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People's Republic of China*) in March 1988. He was also accredited as a senior architectural engineer by 廣東省深圳建築工程技術人員高級職務評審委員會 (Constructional Engineering Technician Senior Title Evaluating Committee of Shenzhen, Guangdong Province*) in December 1994. In April 2001, Mr. Gong received the second class prize of the 廣東省科學技術獎勵 (Guangdong Province Science and Technology Achievements Award*) presented by the 廣東省人民政府 (People's Government of Guangdong Province*).

Prior to joining our Group, Mr. Gong was a civil servant of the PRC. He was appointed as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People's Republic of China*) from March 1988 to December 1989. He was appointed as the party branch secretary of 深圳市國土資源局地礦處黨支部 (Mineral Resources Party Branch of the Shenzhen Municipal Bureau of Land and Resources*) in August 2002. He was then appointed as a researcher of 深圳市規化與國土資源局地質礦產處 (Shenzhen Municipality Geology and Mineral Resources Department*) in August 2003 and was then appointed as a researcher of 深圳市國土資源和房產管理局物業監管處 (Shenzhen Municipality Land Resources and Housing Administrative Bureau*) in June 2004. Mr. Gong retired in 2006. Mr. Gong has not been a director of any listed companies over the past three years.

Mr. Zeng Shiquan (曾石泉), aged 67, was appointed as an independent non-executive Director on 5 June 2014 and a member of the audit and nomination committees on 5 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Zeng graduated from the department of economics of Wuhan University (武漢大學) in July 1970. He graduated from Sun Yat-sen University (中山大學) as a postgraduate in political economy in December 1981. He was accredited as a senior economist by 深圳市職稱改革領導小組 (Shenzhen City Job Title Reform Leadership Unit*) in February 1993. Mr. Zeng passed the Training Course for Independent Directors of Listed Companies (上市公司獨立董事培訓班) jointly held by The Securities Association of China (中國證券業協會) and the School of Management, Fudan University (復旦大學管理學院) in July 2003.

Prior to joining our Group, Mr. Zeng had been the chairman of the board of directors of Shenzhen Tefa Group Co. Ltd (深圳市特發集團有限公司) from August 1998 to August 2002. He was also the deputy chairman of the board of directors of Concord Investments Company Limited (長和投資有限公司) from July 1995 to July 2007.

Mr. Zeng has been appointed as an independent director of each of Shenzhen Terca Technology Co., Ltd. (深圳市特爾佳科技股份有限公司) (Shenzhen Exchange stock code: 002213) since November 2008 and Shenzhen Keybridge Communications Co., Ltd. (深圳鍵橋通訊技術股份有限公司) (Shenzhen Exchange stock code: 002316), whose shares are listed on the Shenzhen Stock Exchange, since January 2013. Mr. Zeng has also been appointed as an independent non-executive director of Jin Cai Holdings Company Limited (金彩控股有限公司) (Stock code: 1250), whose shares are listed on the Main Board of the Stock Exchange since June 2013 whose principal activities are design, printing and sale of cigarette packages in the PRC. From December 2006 to March 2013, Mr. Zeng had been appointed as an independent non-executive director of SZZT Electronics Co., Ltd. (深圳市証通電子股份有限公司) (Shenzhen Exchange stock code: 002197), whose shares are listed on the Shenzhen Stock Exchange, since December 2007. Save as disclosed herein, Mr. Zeng has not been a director of any listed companies over the past three years.

Mr. Wang Ping (王平), aged 43, was appointed as our independent non-executive Director on 5 June 2014, the chairman of the audit committee and a member of the remuneration committee on 6 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Wang studied at Nanjing University (南京大學) and received a self-study undergraduate diploma in economic management in December 1993. Mr. Wang obtained a master degree in Business Administration from Sun Yat-Sen University (中山大學) in June 2004. He is a fellow non-practising member of the Chinese Institute of Certified Public Accountants and has over 15 years of experience in corporate finance, audit, accounting and taxation.

Mr. Wang worked at Deloitte Touche Tohmatsu CPA Ltd from September 1999 to August 2002 where he joined as a senior accountant and was later promoted to manager at the audit department. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited (中國稽山控股有限公司), the shares of which are listed on the main board of Singapore Stock Exchange, as the chief financial officer. Mr. Wang worked for EV Capital Pte Ltd. (萬嘉資本私人有限公司) from May 2007 to March 2010 as the vice president.

In December 2010, Mr. Wang joined Guang Da (China) Automotive Components Holdings Limited (光大(中國)車輛零部件控股有限公司), a subsidiary of China Vehicle Components Technology Holdings Limited as a senior vice president. He is currently the chief financial officer of China Vehicle Components Technology Holdings Limited (中國車輛零部件科技控股有限公司) (Stock code: 1269), whose shares are listed on the Main Board of the Stock Exchange, and he was appointed as its executive director with effect from 1 April 2014.

Mr. Wang has been appointed as an independent non-executive director of each of Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (Shenzhen Exchange stock code: 002378), whose shares are listed on the Shenzhen Stock Exchange, since November 2010 and China Hanking Holdings Limited (Stock code: 3788), whose shares are listed on the Main Board of the Stock Exchange, since February 2011. He has also been appointed as an independent non-executive director of China Tianrui Group Cement Company Limited (Stock code: 1252), whose shares are listed on the Main Board of the Stock Exchange, since December 2012. Since December 2013, Mr. Wang has been serving as an independent non-executive director of Shenzhen Fuanna Bedding and Furnishing Co. Ltd. (深圳市富安娜家居用品股份有限公司) (Shenzhen Exchange Stock code: 002327), a company listed on the Shenzhen Stock Exchange. Save as disclosed herein, Mr. Wang has not been a director of any listed companies over the past three years.

SENIOR MANAGEMENT

Name	Age	Year of Joining our Group	Present Position	Date of Appointment to Position	Key Role
Ms. Song Chun (宋春)	45	2009	Deputy General Manager	18 November 2010	Design, research and development
Mr. Yu Tianbing (余天兵)	45	2003	Production Director	24 March 2012	Production management and quality control
Mr. Li Shaoan (李少安)	41	2004	Finance Director	17 May 2013	Overall financial management

Ms. Song Chun (宋春), aged 45, has been the deputy general manager of Hubei Golden Three Gorges since 18 November 2010 and is responsible for the design, research and development for technology and products. Ms. Song graduated from Guizhou Academy of Arts (貴州藝術專科學校) majoring in arts in July 1993. Ms. Song has over 13 years of experience in design, printing and packaging industry. Before joining our Group, Ms. Song worked as a designer at Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司) (Shenzhen Exchange stock code: 002191), shares of which are listed on the Shenzhen Stock Exchange, from November 2000 to July 2002. She then joined our Group as a designer from July 2002 until she left our Group to join Shenzhen Jinjia Color Printing Group Co., Ltd. as vice technical director in January 2008. In April 2009, Ms. Song rejoined our Group as deputy general manager. She was accredited as 全國十佳優秀煙標設計師 (National Top Ten Cigarette Package Designer*) by 中國煙草學會 (China Tobacco Society*) and 中國收藏家協會 (China Association of Collectors*) in 2006. Ms. Song has not been a director of any listed companies over the past three years.

Mr. Yu Tianbing (余天兵), aged 45, is the production director of Hubei Golden Three Gorges since 24 March 2012 and is responsible for production management and quality control of all products. He graduated from the Hubei Radio & TV University (湖北廣播電視大學) majoring in political history in July 1989. In January 2007, Mr. Yu obtained an adult higher education graduation certificate in printing engineering from the Hunan University of Technology (湖南工業大學). From 1992 to 2001, Mr. Yu worked at Hubei Yuyang Chemical Fiber Co., Ltd (湖北玉陽化纖有限公司) as the head of finance and manager of the corporate management department. Mr. Yu held a number of positions including purchasing manager, deputy production director and production director of Hubei Golden Three Gorges since joining our Group in 2003. Mr. Yu has not been a director of any listed companies over the past three years.

Mr. Li Shaoan (李少安), aged 41, is the finance director of Hubei Golden Three Gorges since 17 May 2013 and is responsible for overall financial management. Mr. Li graduated from Hubei College of Finance and Economics (湖北財經高等專科學校, formerly known as 中南財經大學湖北財政分校) majoring in taxation in July 1994. Mr. Li completed the Global Capital Operation Programme held by School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in December 2008. In July 2009, Mr. Li obtained a graduation certificate in accounting from Dongbei University of Finance and Economics (東北財經大學) through online course. Mr. Li became a PRC certified tax agent in November 2008 and a non-practising member of Hubei Institute of Certified Public Accountants (湖北省註冊會計師協會) in December 2009. Mr. Li has over 9 years of experience in the printing industry. Before joining our Group, Mr. Li worked at the finance department of Yichang Xiarun Cooperation Co.

Ltd. (宜昌峽潤合作有限公司) from October 1998 to June 2004. Mr. Li held a number of positions at Hubei Golden Three Gorges including the finance manager and deputy finance director from July 2004 to May 2013. Mr. Li has not been a director of any listed companies over the past three years.

COMPANY SECRETARY

Wu Hung Wai (吳鴻偉), aged 32, has been the chief financial officer and company secretary of our Company since June 2014. Mr. Wu obtained a bachelor degree in business from the University of Technology, Sydney in October 2003. Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants. He worked in PKF Hong Kong from April 2005 to July 2010 and his last position in PKF Hong Kong was senior supervisor. From October 2010 to January 2013, Mr. Wu worked at Ernst & Young as senior accountant. From August 2013 to February 2014, he worked at Aussco Hong Kong Limited as finance manager. Mr. Wu has over 8 years of experience in audit and accounting industry.

COMPENSATION OF THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to our Directors for the Track Record Period was approximately RMB193,000, RMB183,000 and RMB188,000, respectively.

Under the arrangements currently in force, the aggregate emoluments payable by our Group to our Directors for the year ending 31 December 2014 will be approximately HK$586,000.

We determine our staff's remuneration based on factors such as qualifications and work experience. Our staff costs (including our Directors' and senior management's emoluments) during the Track Record Period was about RMB37,358,000, RMB33,991,000 and RMB40,468,000, respectively.

The emoluments paid to our Group's five highest paid individuals in aggregate for each of the three years ended 31 December, 2013 were approximately RMB1,227,000, RMB1,116,000 and RMB1,186,000, respectively.

During the Track Record Period, no emoluments were paid by our Group to any of our Directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining our Group or as compensation for loss of office. None of our Directors has waived any emoluments during the Track Record Period.

Except as disclosed above, no other payments have been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 10 in the accountants' report set out in Appendix I to this prospectus.

RELATIONSHIP WITH STAFF

We recognise the importance of having a good working relationship with our employees. The remuneration payable to our employees includes salaries and allowances.

We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor any difficulties in the recruitment and retention of experienced staff. Our Directors believe that our Group has a good working relationship with our employees as a whole.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. We will comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules and the associated Listing Rules. For further details of the corporate governance measures in relation to competing interest and conflict of interest of Directors adopted by our Group, please refer to section headed "Relationship with Controlling Shareholders — Non-competition Undertaking" and "Relationship with Controlling Shareholders — Corporate governance measures" in this prospectus.

BOARD COMMITTEES

Audit committee

We have established an audit committee pursuant to a resolution of our Directors passed on 6 June 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The audit committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Yang Fan. The primary duties of our audit committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the financial reporting system, internal control procedures and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Remuneration committee

We have established a remuneration committee pursuant to a resolution of our Directors passed on 6 June 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of two independent non-executive Directors, namely Mr. Gong Jinjun (as Chairman) and Mr. Wang Ping, and one executive Director, Mr. Feng. The primary duties of the remuneration committee are, inter alia, to make recommendations to the Board on the policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management and to make recommendations on the remuneration of our non-executive Directors, and to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure they are consistent with relevant contractual terms and are otherwise reasonable and appropriate.

Nomination committee

We have established a nomination committee pursuant to a resolution of our Directors passed on 6 June 2014 with written terms of reference in compliance with paragraph A.5 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Our nomination committee consists of two independent non-executive Directors, namely Mr. Zeng Shiquan and Mr. Gong Jinjun, and one executive Director, Mr. Yang (as Chairman). The primary functions of our nomination committee are, inter alia, to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement our Company's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

COMPLIANCE ADVISER

Our Company has appointed RaffAello Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise on the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(iii) where our Company proposes to use the proceeds of the IPO in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date which our Company distributes the annual report of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE OPTION SCHEME

The Share Option Scheme was adopted pursuant to the written resolutions of the Shareholders of our Company passed on 6 June 2014. The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. This will be in accordance with Chapter 17 of the Listing Rules and other relevant rules and regulations. Further details of the Share Option Scheme are set forth in the section headed "Statutory and General Information" set out in Appendix V to this prospectus.

CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related parties transactions, details of which are set out in note 30(b) to the Accountant's Report set out in Appendix I to this Prospectus. Our Directors have confirmed that these related parties transactions were conducted on terms agreed with counter parties in the ordinary course of business. These related parties transactions have discontinued before the Latest Practicable Date.

Following the Listing, the following transactions will continue between our Group and the relevant connected person (as defined in the Listing Rules), which will constitute non-exempt continuing connected transaction under the Listing Rules.

Non-Exempt Continuing Connected Transactions

The following transactions have been carried out by our Group and our connected persons (as defined in the Listing Rules) during the Track Record Period and are expected to continue following the Listing. These transactions will constitute continuing connected transactions which are not exempt from the reporting, announcement and/or independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules upon Listing.

(A) Sale of paper cigarette packages by our Group

During the Track Record Period, our Group sold paper cigarette packages to ten Provincial Tobacco Industrial Companies and five non-provincial companies under China Tobacco Industry Development Center and their respective branches, factories and other entities in which they respectively have 30% or more interest (for the purpose of this section, reference to these companies include their branches, factories and other entities in which they respectively or together have 30% or more interest, except that reference to China Tobacco Hubei does not include Heilongjiang Tobacco Industrial and reference to China Tobacco Hunan does not include 河北白沙煙草有限責任公司 (Hebei Baisha Tobacco Co., Ltd.)). A list of our Group's customers comprising, to the best knowledge of our Directors after making reasonable enquiries, Provincial Tobacco Industrial Companies or the enterprises under China Tobacco Industry Development Center during the Track Record Period the transactions with which are expected to continue after Listing (the "**State-owned Tobacco Companies Customer(s)**") is set out below:

Name of the State-owned Tobacco Companies Customers:

(1) China Tobacco Hubei;

(2) Heilongjiang Tobacco Industrial;

(3) China Tobacco Chuanyu;

(4) China Tobacco Shaanxi;

(5) China Tobacco Yunnan;

(6) China Tobacco Shandong;

(7) China Tobacco Henan;

(8) Hainan Hongta Cigarette;

(9) China Tobacco Fujian;

(10) China Tobacco Guizhou;

(11) Shanxi Kunming Tobacco;

(12) Shenzhen Tobacco Industrial;

(13) Inner Mongolia Kunming Cigarettes;

(14) China Tobacco Hunan; and

(15) China Tobacco Hebei.

(i) Relationship between our Group and State-owned Tobacco Companies Customers

Hubei Three Gorges holds 17.14% equity interest in Hubei Golden Three Gorges, which is a subsidiary of our Company. Hence, according to Rule 14A.11(1) of the Listing Rules, Hubei Three Gorges is a connected person of our Company.

To the best knowledge of our Directors after making reasonable enquiries, and based on the confirmation letter issued by 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory), a branch company of China Tobacco Hubei, dated 9 December 2013 (i) China Tobacco Hubei has accounted for Hubei Three Gorges as its subsidiary in its financial statements; (ii) Hubei Three Gorges is managed by China Tobacco Hubei; (iii) the registered equity holder of Hubei Three Gorges, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) ("**Hubei Tobacco Monopoly**"), is in the process of transferring the entire equity interest in Hubei Three Gorges to China Tobacco Hubei; and (iv) during the Track Record Period, dividends from Hubei Golden Three Gorges payable to Hubei Three Gorges were, pursuant to the latter's instructions, directly paid to 湖北中煙工業有限責任公司三峽卷煙廠 (Hubei China Tobacco Industrial Co, Ltd. Three Gorges Tobacco Factory), a branch company of China Tobacco Hubei. On the basis of the foregoing, although Hubei Tobacco Monopoly is the registered equity holder of Hubei Three Gorges, our Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges and hence, China Tobacco Hubei is an associate of Hubei Three Gorges under Rule 1.01 of the Listing Rules, and accordingly a connected person of our Company. China Tobacco Hubei is one of the Provincial Tobacco Industrial Companies.

To the best knowledge of our Directors after making reasonable enquiries, and based on the results of a company search conducted on or about 4 June 2014, Heilongjiang Tobacco Industrial, one of our Group's customers, is owned as to 35% by China Tobacco Hubei, and as to 65% by China Tobacco Industry Development Center. Hence, Heilongjiang Tobacco Industrial is also an associate of Hubei Three Gorges under Rule 1.01 of the Listing Rules, and hence a connected person of our Company. Heilongjiang Tobacco Industrial is one of the non-provincial companies under China Tobacco Industry Development Center.

To the best knowledge of our Directors after making reasonable enquiries, all of the State-owned Tobacco Companies Customers (including China Tobacco Hubei and Heilongjiang Tobacco Industrial) are direct or indirect wholly-owned subsidiaries (i.e. "**fellow subsidiaries**") of CNTC, the holding company of China Tobacco Hubei. Hence, on a strict interpretation of Rule 1.01 of the Listing Rules, each of the State-owned Tobacco Companies Customers is an associate of Hubei Three Gorges and hence a connected person of our Company. Accordingly, transactions between our Group and each of the State-owned Tobacco Companies Customers would, on a strict interpretation of the Listing Rules, constitute connected transactions of our Company after the Listing.

(ii) Please see below a table summarizing the details of the sale of paper cigarette packages by our Group to the State-owned Tobacco Companies Customers expected to be continued after Listing:

Name of State-owned Tobacco Companies Customer	Particulars of contract(s) for sale of paper cigarette packages between our Group and each of the State-owned Tobacco Companies Customers (collectively, the "Agreements")	Estimated maximum transaction amount for the year ending 31 December 2014
1. China Tobacco Hubei	As China Tobacco Hubei has not yet completed its tender process for the current year, it enters into provisional supply contract(s) with its existing supplier(s) under the old tenders. In this relation, four factories of China Tobacco Hubei, each being a branch company of China Tobacco Hubei, have entered into sales contracts for the sale of paper cigarette packages by our Group to each of them. Besides, our Group was engaged by China Tobacco Hubei to produce certain new tobacco packages in small quantities. Details of these sales contracts are listed below: (1) an agreement between Hubei Golden Three Gorges and China Tobacco Hubei dated 16 February 2014 for the period from 1 January 2014 to the date before the effective date of the results of 2014 tender by China Tobacco Hubei (2) two agreements between Hubei Golden Three Gorges and China Tobacco Hubei dated 29 September 2013 for the period from 29 September 2013 to 31 October 2014 and dated 9 December 2013 for the period from 9 December 2013 to 31 December 2014, respectively (3) two agreements between Hubei Golden Three Gorges and China Tobacco Hubei both dated 25 March 2014 for the period from 25 March 2014 to 30 June 2014 (4) an agreement between Hubei Golden Three Gorges and China Tobacco Hubei dated 1 January 2014 for the period from 1 January 2014 to the completion of the transactions under the tender by China Tobacco Hubei	RMB64,847,000

Name of State-owned Tobacco Companies Customer	Particulars of contract(s) for sale of paper cigarette packages between our Group and each of the State-owned Tobacco Companies Customers (collectively, the "Agreements")	Estimated maximum transaction amount for the year ending 31 December 2014
	(5) two agreements between Hubei Golden Three Gorges and China Tobacco Hubei dated 17 April 2014 for the period from 17 April 2014 to 31 December 2014	
	(6) an agreement between Hubei Golden Three Gorges and China Tobacco Hubei dated 31 December 2013 for the period from 1 January 2014 to 31 December 2014	
	(7) two agreements between Hubei Golden Three Gorges and China Tobacco Hubei dated 26 November 2013 for the period from 26 November 2013 to 31 December 2014	
	(8) an agreement between Hubei Golden Three Gorges and China Tobacco Hubei dated 26 January 2013 for the period from 1 January 2013 to the date before the completion of the 2014 tender by China Tobacco Hubei	
	(9) six agreements between Hubei Golden Three Gorges and China Tobacco Hubei dated 29 April 2014 for the period from 29 April 2014 to 31 December 2014	
2. Heilongjiang Tobacco Industrial	An agreement between Hubei Golden Three Gorges and Heilongjiang Tobacco Industrial dated 4 January 2013 for the period from 1 January 2013 to 31 December 2013, which validity has been extended to the date before confirmation of the next tender result (which is expected to take place by the end of 2014) pursuant to a notice issued by Heilongjiang Tobacco Industrial dated 14 April 2014	RMB24,191,000
3. China Tobacco Chuanyu	An agreement between Hubei Golden Three Gorges and China Tobacco Chuanyu dated 1 January 2013 for the period from 1 January 2013 to 31 December 2014	RMB123,592,000
4. China Tobacco Shaanxi	(1) An agreement between Hubei Golden Three Gorges and China Tobacco Shaanxi dated 11 March 2013 for the period from 1 January 2013 to 31 December 2014	RMB35,347,000
	(2) An agreement between Hubei Golden Three Gorges and China Tobacco Shaanxi dated 30 June 2013 for the period from 1 July 2013 to 30 June 2014	
	(3) An agreement between Hubei Golden Three Gorges and China Tobacco Shaanxi dated 20 January 2014 for the period from 1 February 2014 to 31 January 2015	
	(4) An agreement between Hubei Golden Three Gorges and China Tobacco Shaanxi dated 20 March 2014 for the period from 20 March 2014 to 31 January 2015	
	(5) An agreement between Hubei Golden Three Gorges and China Tobacco Shaanxi dated 20 March 2014 for the period from 20 March 2014 to 31 January 2015	

Name of State-owned Tobacco Companies Customer	Particulars of contract(s) for sale of paper cigarette packages between our Group and each of the State-owned Tobacco Companies Customers (collectively, the "Agreements")	Estimated maximum transaction amount for the year ending 31 December 2014
5. China Tobacco Yunnan	(1) An agreement between Hubei Golden Three Gorges, China Tobacco Yunnan and Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan, dated 11 March 2014 for the period from 11 March 2014 to 31 December 2014	RMB37,643,000
	(2) An agreement between Hubei Golden Three Gorges, China Tobacco Yunnan and Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan, dated 11 March 2014 for the period from 11 March 2014 to 31 December 2014	
	(3) An agreement between Hubei Golden Three Gorges, China Tobacco Yunnan and Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan, dated 11 March 2014 for the period from 11 March 2014 to 31 December 2014	
	(4) An agreement between Hubei Golden Three Gorges, China Tobacco Yunnan and Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan, dated 14 March 2014 for the period from 14 March 2014 to 31 December 2014	
	(5) An agreement between Hubei Golden Three Gorges, China Tobacco Yunnan and Yunnan Tobacco Materials (Group) Company Limited (雲南中煙物資(集團)有限責任公司), a wholly-owned subsidiary of China Tobacco Yunnan, dated 14 March 2014 for the period from 14 March 2014 to 31 December 2014	
6. China Tobacco Shandong	(1) An agreement between Hubei Golden Three Gorges and China Tobacco Shandong dated 27 January 2014 for the period from 27 January 2014 to 31 December 2014	RMB13,497,000
	(2) An agreement between Hubei Golden Three Gorges and China Tobacco Shandong dated 27 January 2014 for the period from 27 January 2014 to 31 December 2014	
7. China Tobacco Henan	(1) An agreement between Hubei Golden Three Gorges and China Tobacco Henan dated 14 March 2014 for the period from 1 January 2014 to 30 June 2014	RMB63,252,000
	(2) An agreement between Hubei Golden Three Gorges and China Tobacco Henan dated 14 March 2014 for the period from 1 January 2014 to 30 June 2014	
8. Hainan Hongta Cigarette	(1) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Hainan Hongta Cigarette dated 8 May 2014 for the year ending 31 December 2014	RMB18,810,000
	(2) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Hainan Hongta Cigarette dated 8 May 2014 for the year ending 31 December 2014	

Name of State-owned Tobacco Companies Customer	Particulars of contract(s) for sale of paper cigarette packages between our Group and each of the State-owned Tobacco Companies Customers (collectively, the "Agreements")	Estimated maximum transaction amount for the year ending 31 December 2014
9. China Tobacco Fujian	(1) An agreement between Hubei Golden Three Gorges, China Tobacco Fujian and Xiamen Tobacco Industrial Co., Ltd., a wholly-owned subsidiary of China Tobacco Fujian, dated 21 March 2014 for the period from 1 July 2013 to 30 June 2014	RMB21,019,000
	(2) An agreement between Hubei Golden Three Gorges, China Tobacco Fujian and Xiamen Tobacco Industrial Co., Ltd., a wholly-owned subsidiary of China Tobacco Fujian, dated 21 March 2014 for the period from 1 July 2013 to 30 June 2014	
	(3) An agreement between Hubei Golden Three Gorges, China Tobacco Fujian and Xiamen Tobacco Industrial Co., Ltd., a wholly-owned subsidiary of China Tobacco Fujian, dated 17 March 2014 for the period from 1 July 2013 to 30 June 2014	
	(4) An agreement between Hubei Golden Three Gorges, China Tobacco Fujian and Xiamen Tobacco Industrial Co., Ltd., a wholly-owned subsidiary of China Tobacco Fujian, dated 17 March 2014 for the period from 1 July 2013 to 30 June 2014	
10. China Tobacco Guizhou	An agreement between Hubei Golden Three Gorges and China Tobacco Guizhou dated 17 April 2013 for the period from 1 April 2013 to 31 March 2015	RMB16,581,000
11. Shanxi Kunming Tobacco	(1) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Shanxi Kunming Tobacco dated 21 April 2014 for the period from 21 April 2014 to 31 December 2014	RMB33,578,000
	(2) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Shanxi Kunming Tobacco dated 21 April 2014 for the period from 21 April 2014 to 31 December 2014	
12. Shenzhen Tobacco Industrial	(1) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Shenzhen Tobacco Industrial dated 8 May 2014 for the period from 8 May 2014 to 31 December 2014	RMB16,721,000
	(2) An agreement between Hubei Golden Three Gorges, China Tobacco Industry Development Centre and Shenzhen Tobacco Industrial dated 8 May 2014 for the period from 8 May 2014 to 31 December 2014	
13. Inner Mongolia Kunming Cigarettes	(1) An agreement between Hubei Golden Three Gorges, Inner Mongolia Kunming Cigarettes and China Tobacco Industry Development Center dated 3 March 2014 for the period from 3 March 2014 to 31 December 2014	RMB8,683,000
	(2) An agreement between Hubei Golden Three Gorges, Inner Mongolia Kunming Cigarettes and China Tobacco Industry Development Center dated 3 March 2014 for the period from 3 March 2014 to 31 December 2014	
	(3) An agreement between Hubei Golden Three Gorges, Inner Mongolia Kunming Cigarettes and China Tobacco Industry Development Center dated 10 March 2014 for the period from 10 March 2014 to 31 December 2014	
	(4) An agreement between Hubei Golden Three Gorges, Inner Mongolia Kunming Cigarettes and China Tobacco Industry Development Center dated 13 March 2014 for the period from 13 March 2014 to 31 December 2014	

Name of State-owned Tobacco Companies Customer	Particulars of contract(s) for sale of paper cigarette packages between our Group and each of the State-owned Tobacco Companies Customers (collectively, the "Agreements")	Estimated maximum transaction amount for the year ending 31 December 2014
14. China Tobacco Hunan	(1) An agreement between Hubei Golden Three Gorges and China Tobacco Hunan dated 3 May 2013 for the period from 1 April 2013 to 31 July 2015 (2) An agreement between Hubei Golden Three Gorges and China Tobacco Hunan dated 3 May 2013 for the period from 1 April 2013 to 31 July 2015 (3) An agreement between Hubei Golden Three Gorges and China Tobacco Hunan dated 3 May 2013 for the period from 1 August 2013 to 31 July 2015	RMB6,863,000
15. China Tobacco Hebei (Note: 河北白沙煙草有限責任公司 (Hebei Baisha Tobacco Co., Ltd.) is owned as to 50% by China Tobacco Hebei and China Tobacco Hunan and is assumed to be a subsidiary of China Tobacco Hebei for the purpose of this section)	(1) An agreement between Hubei Golden Three Gorges and China Tobacco Hebei dated 1 January 2013 for the period from 1 January 2013 to 31 December 2014 (2) An agreement between Hubei Golden Three Gorges and China Tobacco Hebei dated 5 March 2014 for the period from 1 January 2014 to 31 December 2014 (3) An agreement between Hubei Golden Three Gorges and China Tobacco Hebei dated 5 March 2014 for the period from 1 January 2014 to 31 December 2014	RMB11,157,000
Total:		approximately RMB495,781,000

The selling prices of paper cigarette packages are fixed under the Agreements (which are, in general, within or determined with reference to, the price ranges specified in the relevant tender documents and for new products are determined with reference to the prices offered by Hubei Golden Three Gorges, which are in turn determined with reference to, inter alia, its costs of production).

Our total sales to the State-owned Tobacco Companies Customers the transactions with which are expected to continue after Listing amounted to approximately RMB382,738,000, RMB358,650,000 and RMB450,708,000, and accounted for approximately 89.8%, 81.8% and 90.9% of the total sales for the three years ended 31 December 2011, 2012 and 2013, respectively.

Our Directors confirmed that the transactions with each of the State-owned Tobacco Companies Customers during the Track Record Period were (i) conducted on normal commercial terms; (ii) carried out in our Group's ordinary and usual course of business, and in accordance with the terms and agreements governing the transactions; and (iii) fair and reasonable, and in the interest of our Shareholders as a whole.

It is expected that the sales by our Group to the State-owned Tobacco Companies Customers, in aggregate and under the Agreements, for the year ending 31 December 2014 (the "**Annual Cap**") will not be more than RMB495,781,000. In arriving at the Annual Cap, our Directors had considered:

(i) the historical transaction amounts with the State-owned Tobacco Companies Customers which are expected to continue after Listing; and

(ii) an annual sales growth rate of approximately 10% which was estimated with reference to (1) the expected industry growth of approximately 1.6% for 2014 and expected new orders from the State-owned Tobacco Companies Customers in view of the new products development; and (2) approximately 25.7% increase in total sales to the State-owned Tobacco Companies Customers from 2012 to 2013 which are expected to continue after Listing.

Our Directors expect that the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Agreements on an annual basis will be more than 5%. Therefore, the Agreements are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As each of the Agreements has been entered into based on the tender results of the relevant products, or are provisional contracts entered into before completion of the new tender, or are related to new products for a small quantity, and taking into consideration that the selling prices of the paper cigarette packages are fixed under the Agreements (which are, in general, within or determined with reference to, the price ranges specified in the relevant tender documents, and for new products, are determined with reference to the prices offered by Hubei Golden Three Gorges, which are in turn determined with reference to, inter alia, its costs of production), our Directors (including our independent non-executive Directors) and the Sole Sponsor are of the view that each of the Agreements has been entered into on normal commercial terms comparable to those offered by other Provincial Tobacco Industrial Companies, in the ordinary and usual course of business of our Group and that the terms of each of the Agreements, including the Annual Cap, are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Since most of the Agreements will expire on or before the end of 2014 and new agreements will be entered into for the transactions between our Group and the State-owned Tobacco Companies Customers upon successful tender or the expiration of the Agreements, only an aggregate annual cap for the transactions between our Group and the State-owned Tobacco Companies Customers for the year ending 31 December 2014 is set and our Group will comply with the relevant requirements of the Listing Rules as and when our Group enters into new agreements with the State-owned Tobacco Companies Customers after Listing.

(B) Purchase of paper by our Group

The following are the suppliers of our Group which, to the best knowledge of our Directors after making reasonable enquiries, are our connected persons and the transactions with which are expected to be continued after Listing:

1. Zhuhai Huafeng Paper Company Limited* (珠海華豐紙業有限公司) ("**Zhuhai Huafeng**"), an entity in which China Tobacco Yunnan indirectly owns more than 30% equity interest; and

2. Hongta Group, a wholly owned subsidiary of China Tobacco Yunnan.

One of the State-owned Tobacco Companies Customers, China Tobacco Yunnan, designated two suppliers to supply paper to our Group as its cigarette package manufacturer:

(1) our Group entered into a paper purchase contract with Zhuhai Huafeng dated 1 October 2013 for a term of one year for the supply of paper for a sub-brand of China Tobacco Yunnan. Our Group is required by China Tobacco Yunnan to purchase paper from Zhuhai Huafeng for the manufacturing of cigarette packages of a sub-brand. To the best knowledge of our Directors after conducting company search, Hongta Group, being a wholly-owned subsidiary of China Tobacco Yunnan, owns approximately 32.5% interest in Zhuhai Huafeng. Hence, Zhuhai Huafang is a connected person of our Company under the Listing Rules; and

(2) our Group entered into a contract with Hongta Group dated 17 February 2014 for a period from 17 February 2014 to 31 December 2015 for, *inter alia*, the supply of paper for a sub-brand of Hongta Group (the contracts with Zhuhai Huafeng and Hongta Group, together the "**Purchase Agreements**"). Our Group is required by Hongta Group to purchase paper from Hongta Group for the manufacturing of cigarette packages of a sub-brand. Hongta Group, being a wholly-owned subsidiary of China Tobacco Yunnan, is a connected person of our Company under the Listing Rules.

The selling prices of paper are fixed under the Purchase Agreements (which are, in general, fixed by the relevant supplier).

During the Track Record Period, our purchases from Zhuhai Huafeng amounted to approximately RMB Nil, RMB Nil and RMB717,000, respectively, representing approximately Nil %, Nil% and 0.3% of our total purchases during the same periods; and our purchases from Hongta Group, amounted to approximately RMB401,000, RMB2,031,000 and RMB584,000, respectively, representing approximately 0.3%, 1.2% and 0.2% of our total purchases during the same periods. Our Directors confirmed that the transactions with Zhuhai Huafeng and Hongta Group during the Track Record Period were (i) conducted on normal commercial terms; (ii) carried out in our Group's ordinary and usual course of business, and in accordance with the terms and agreements governing the transactions; and (iii) fair and reasonable, and in the interest of our Shareholders as a whole.

It is expected that the purchase by our Group from (i) Zhuhai Huafeng will not be more than RMB3,370,000 for the year ending 31 December 2014, and (ii) Hongta Group will not be more than RMB1,940,000 and RMB1,940,000 for the year ending 31 December 2014 and 31 December 2015, respectively (the "**Purchase Annual Caps**"). In arriving at the Purchase Annual Caps, our Directors had considered the followings:

(i) for the purchase from Zhuhai Huafeng, the annual cap was determined with reference to the historical transaction amounts with our suppliers designated by China Tobacco Yunnan (for the year 2013, apart from Zhuhai Huafeng, China Tobacco Yunnan had designated another supplier to supply paper to our Group for a sub-brand. The said designation had ceased in November 2013, and the paper for that sub-brand has been supplied to our Group by Zhuhai Huafeng thereafter. Our purchases from the previous designated supplier amounted to approximately RMB2,350,000 for the year ended 31 December 2013 and thus our total purchases from the said previous designated supplier and Zhuhai Huafeng amounted to approximately RMB3,067,000 for the year ended 31 December 2013) and an annual purchase growth rate of approximately 10% which was estimated with reference to the expected annual sales growth rate of approximately 10% for the sales to China Tobacco Yunnan; and

(ii) for the purchase from Hongta Group, the annual cap was determined with reference to the indicated potential sales orders of paper cigarette packages in the process of contract negotiation with the relevant customers and the expected cost of paper purchases. For the year ending 31 December 2014, while assuming the existing unit price of the relevant type of paper to remain unchanged, the annual cap of purchase from Hongta Group is determined based on (i) purchase orders received in the first quarter of 2014; and (ii) the potential orders indicated by the relevant customers during our Group's negotiations with the relevant customers regarding the purchase orders it would potentially place with our Group for the remaining period in 2014. These expected orders to be placed, together with the confirmed orders as at the Latest Practicable Date, are expected to approximately triple the amount for the year 2013. For the year ending 31 December 2015, our Directors expect that the purchase order will be maintained at a similar level as that of the year ending 31 December 2014.

Our Directors expect that the applicable percentage ratios under Rule 14.07 of the Listing Rules for the Purchase Agreements on an annual basis, in aggregate, will be more than 0.1% but less than 5%. Therefore, the Purchase Agreements are subject to the annual review, reporting, and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Taking into consideration that such purchase of paper from designated suppliers of China Tobacco Yunnan, which is a connected person as abovementioned, is part and parcel of the sales made with China Tobacco Yunnan and the selling prices of the paper are fixed by the relevant supplier, our Directors (including the independent non-executive Directors) and the Sole Sponsor are of the view that the Purchase Agreements have been entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and that the terms of each of the

Purchase Agreements, including the Purchase Annual Caps, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Waiver from the Stock Exchange

We have applied to the Stock Exchange, and the Stock Exchange has agreed, to grant a waiver to us from strict compliance with the announcement and/or independent shareholders' approval requirements under Rule 14A.34 or Rule 14A.35(3) and (4) of the Listing Rules, relating to the continuing connected transactions mentioned in the paragraph headed "Non-Exempt Continuing Connected Transactions" above on the condition that the annual value of each of the transactions does not exceed the relevant cap as stated above.

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Our Company

Name	**Capacity/Nature of interest**	**Number of Shares held/ interested**	**Percentage of shareholding after completion of the Share Offer (approximate)**
Spearhead Leader	Beneficial owner	209,362,000	69.79%
Star Glide	Beneficial owner	15,638,000	5.21%
Mr. Yang	Interest of a controlled corporation *(Note 1)*	209,362,000	69.79%
Mr. Feng	Interest of a controlled corporation *(Note 2)*	15,638,000	5.21%
Ms. Cai	Interest of spouse *(Note 3)*	209,362,000	69.79%
Ms. Zhao Yi	Interest of spouse *(Note 4)*	15,638,000	5.21%

Note:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 Shares held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the director of Spearhead Leader.

2. Mr. Feng beneficially owns the entire issued share capital of Star Glide. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide for the purpose of the SFO. Mr. Feng is the director of Star Glide.

3. Ms. Cai is the spouse of Mr. Yang. Accordingly Ms. Cai is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Yang is interested in for the purpose of the SFO.

4. Ms. Zhao Yi is the spouse of Mr. Feng. Accordingly Ms. Zhao Yi is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Feng is interested in for the purpose of the SFO.

Other members of our Group

Name of subsidiary	Name of shareholder	Percentage of shareholding
Hubei Golden Three Gorges	Hubei Three Gorges	17.14%

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries.

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the Share Offer, Spearhead Leader and Mr. Yang will control more than 30% of the issued share capital of our Company. For the purpose of the Listing Rules, Spearhead Leader and Mr. Yang are the Controlling Shareholders of our Company. Spearhead Leader is an investment holding company. Each of Spearhead Leader and Mr. Yang confirms that it or he does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on its businesses independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. During the Track Record Period, we have certain non-trade related amounts due to or from Mr. Yang and/or his associates and Mr. Feng and/or his associates. For details, please refer to the section headed "Financial Information — Related Parties Transactions — Amounts due from related parties" and "Financial Information — Related Parties Transactions — Amounts due to related parties" in this prospectus. Mr. Yang and Mr. Feng also, through their respective personal holding companies, provided shareholder's loans in the amount of approximately RMB110,505,000 and RMB8,152,000, respectively, to our Group to settle the consideration we were required to pay to the former equity holders of Hubei Golden Three Gorges and Dangyang Liantong pursuant to the Reorganisation. These shareholder's loans were fully capitalized. The remaining non-trade related amounts due to or from Mr. Yang and/or his associates and Mr. Feng and/or his associates, will be fully waived and/or settled before Listing save for (a) the amount of approximately RMB14.1 million due to Mr. Yang and/or his associates by our Group, being part of the listing expenses, and the amount of approximately RMB5.2 million expected to be received by our Group from Mr. Yang and/or his associates from May 2014 to the time before the Listing to cover our listing expenses, which will be settled using the gross proceeds from the Share Offer upon the Listing; and (b) the amount of approximately RMB751,000 due to Mr. Yang and/or his associates by our Group, being operating expenses incurred by subsidiaries of our Company in Hong Kong, which will be settled using the net proceeds from the Share Offer upon the Listing. For details of the use of proceeds from the Share Offer, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations.

(ii) Operational independence

Our Group has established our own organisational structure comprising of individual departments, each with specific areas of responsibilities. Our Group has not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates.

(iii) Independence of management

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The main function of the Board includes the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

The Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Yang, our Controlling Shareholder, is an executive Director. Mr. Yang Fan, the son of Mr. Yang, is a non-executive Director.

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum.

(iv) Independence of major suppliers

Hubei Mengke, which was held as to 75% by Hubei Golden Three Gorges and 25% by Medicon immediately prior to the commencement of the Track Record Period until all equity interests were disposed by our Group and Medicon in 2013 (for details of the disposal of Hubei Mengke, please refer to the section headed "History, Reorganisation and Group Structure — Disposal of Subsidiary — Hubei Mengke" of this prospectus), supplied paper to us and was one of our five largest suppliers during the Track Record Period. The purchase of paper from Hubei Mengke amounted to approximately RMB75,420,000, RMB62,535,000 and RMB93,742,000, and accounting for approximately 34.7%, 26.3% and 33.3% of the total purchases (without eliminating the purchase from Hubei Mengke) for the three years ended 31 December 2011, 2012 and 2013, respectively. Please refer to the section headed "Business — Procurement — Raw materials" in this prospectus for our business transactions with Hubei Mengke. Save as disclosed above, our Directors confirm that none of our Controlling Shareholders, our Directors and their respective associates have any relationship with the major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Our Directors confirmed that all such transactions with Hubei Mengke was conducted in the ordinary and usual course of business of our Group, and on normal commercial terms by reference to the prevailing market rates or at rates similar to those quoted to or from Independent Third Parties.

Upon the disposal of Hubei Mengke by Medicon in August 2013, Hubei Mengke has become an Independent Third Party and our Group will continue to purchase from Hubei Mengke on normal commercial terms by reference to the prevailing market rates or at rates similar to those quoted to or from other Independent Third Parties.

(v) Independence of major customers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective associates have any relationship with the top five customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period. Our Directors are of the view that our Group does not unduly rely on our Controlling Shareholders and/or their respective associates.

As set out in the paragraph headed "Minority Shareholder" in the section headed "History, Reorganisation and Group Structure" of this prospectus, China Tobacco Hubei is the de facto equity holder of Hubei Three Gorges, the minority equity holder of Hubei Golden Three Gorges, and hence a connected person of our Company under the Listing Rules. As our other customers which are Provincial Tobacco Industrial Companies and non-provincial companies under China Tobacco Industry Development Center are owned directly or indirectly by CNTC, which is the holding company of China Tobacco Hubei, each of our customers which are Provincial Tobacco Industrial Companies and non-provincial companies under China Tobacco Industry Development Center is a connected person of our Company under the Listing Rules. Our Directors confirmed that all our transactions with the Provincial Tobacco Industrial Companies and non-provincial companies under China Tobacco Industry Development Center were, and will be conducted in the ordinary and usual course of business of our Group, and on normal commercial terms. For details, please refer to the section headed "Connected Transactions" in this prospectus.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders and our Directors do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

In order to avoid any possible future competition between our Group and each of Mr. Yang and Spearhead Leader (the "Covenantors"), each of the Covenantors has executed a deed of non-competition (collectively, the "Deeds") on 6 June 2014 in favour of our Company (for itself and for the benefit of each other member of our Group). Pursuant to the Deeds, during the period that the Deeds remain effective, each of the Covenantors irrevocably and unconditionally undertakes to our Company (for itself and for the benefit of each other member of our Group) that he/it shall not, and shall procure his or its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group.

When business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give our Company notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal. Within 30 days after receipt of written notice concerning offer of such business opportunities from the Covenantor(s) or his/its associate(s), we shall notify the Covenantor(s) whether we intend to accept the offer. If we decline any such offer, the Covenantor(s) and/or his/its associate(s) shall then be allowed to acquire the business opportunities offered on terms no more favorable than those offered to us.

The Deeds are conditional upon the fulfilment of the following conditions:

(i) the Listing Committee granting the approval for the listing of, and permission to deal in, our Shares; and

(ii) the fulfilment of the conditions precedent under the Underwriting Agreements (including waiver of any conditions precedent by the Underwriters, if applicable) and the Underwriting Agreements not being terminated.

If any of such conditions is not fulfilled on or before the date agreed between the Underwriters and our Company or the Underwriters and our Company have agreed to terminate the Underwriting Agreements thereafter, the Deeds shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deeds.

The Deeds shall terminate when (i) a Covenantor whether individually or taken together with his or its associates, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) our Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

Each of the Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of our Company and its Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

(i) the Covenantors will make an annual confirmation as to compliance with his/its undertaking under the Deeds for inclusion in the annual report of our Company;

(ii) the Board is committed to the view that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board which can effectively exercise independent judgment. Our Company has appointed three independent non-executive Directors. Our Directors believe that the independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of the independent non-executive Directors are set out in the section headed "Directors, senior management and staff" in this prospectus;

(iii) our Company has appointed RaffAello Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls;

(iv) the Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deeds; and

(v) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with the Deeds; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deeds. Findings of such review will be disclosed in our annual report after the Listing.

SHARE CAPITAL

The share capital of our Company immediately following the Capitalisation Issue and the Share Offer, without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, will be as follows:

Authorised share capital		*HK$*
2,000,000,000	Shares	20,000,000
Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:		*HK$*
10,000	Shares in issue at the date of this prospectus	100
224,990,000	Shares to be issued pursuant to the Capitalisation Issue	2,249,900
75,000,000	Shares to be issued pursuant to the Share Offer	750,000
300,000,000	Total	3,000,000

RANKING

The Offer Shares will rank pari passu in all respects with all our Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 6 June 2014, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors are authorised to allot and issue a total of 224,990,000 Shares credited as fully paid at par to the holders of the Shares on the register of members of our Company at the close of business on 5 June 2014 in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK$2,249,900 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

(a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Share Offer; and

(b) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in the paragraph headed "General mandate to repurchase shares" in this section.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed "Statutory and General Information — Further Information about Our Company — Written resolutions of our Shareholders passed on 6 June 2014" set out in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section headed "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognized by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue immediately following the completion of the Capitalisation Issue and the Share Offer (excluding Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Further information about our Company — Repurchase of our Shares by our Company" in Appendix V to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the sections headed "Statutory and General Information — Further Information about Our Company — Written resolutions of our Shareholders passed on 6 June 2014" and "Statutory and General Information — Further Information about Our Company — Repurchase of our Shares by our Company" set out in Appendix V to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed "Statutory and General Information — Share Option Scheme" set out in Appendix V to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in the section headed "Summary of the Constitution of the Company and the Cayman Islands Company Law" set out in Appendix IV to this prospectus.

The following discussion and analysis of our financial condition and results of operations are based on and should be read in conjunction with our financial information for each of the three years ended 31 December 2011, 2012 and 2013, including the notes thereto, as set out in the Accountants' Report in Appendix I to this prospectus. Our financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed and elsewhere in this prospectus, particularly in sections headed "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We are principally engaged in the design, manufacture and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC. Our principal operating subsidiary, Hubei Golden Three Gorges, has been established in the PRC for over two decades and we have accumulated over twenty years of experience in the industry, with strong business relationships with our major customers. According to the Euromonitor Report, our Group had a national market share of approximately 1.5% in 2013.

During the Track Record Period, we sold our products to ten of the total 16 Provincial Tobacco Industrial Companies in the PRC. We are also a qualified supplier for 5 non-provincial companies from China Tobacco Industry Development Center. We have maintained relationships with our major customers for over ten years. We supply paper cigarette packages including 15 out of 30 Key Cigarette Brands products. In particular, our Group has supplied paper cigarette packages to China Tobacco Chuanyu, our largest customer, for its Pride (嬌子) and other brands for more than ten years and has supplied paper cigarette packages to China Tobacco Yunnan, for its Yuxi (玉溪) and Honghe (紅河) cigarette brands, for over 10 years.

In 2013, we ceased our paper production business by selling our entire 75% equity interests in the subsidiary, Hubei Mengke (70% equity interests was disposed of in February 2013 and 5% equity interests was disposed of in July 2013). The financial results of Hubei Mengke was recorded as discontinued operation in our combined statement of comprehensive income. Please refer to Note 13 to the Accountants' Report set out in Appendix I to this prospectus for details of our discontinued operation.

In 2011, 2012 and 2013, our revenue was RMB426.2 million, RMB438.5 million and RMB495.8 million, respectively; the profit attributable to owners of the Company was RMB28.5 million, RMB38.9 million and RMB35.4 million, respectively.

Combined statements of profit or loss and other comprehensive income

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Continuing Operations			
Revenue	426,248	438,533	495,773
Cost of sales	(299,251)	(313,494)	(337,851)
Gross profit	126,997	125,039	157,922
Gross profit margin	*29.8%*	*28.5%*	*31.9%*
Other income	4,830	6,971	8,412
Other gains and losses	(6,712)	(1,173)	(2,578)
Selling and distribution expenses	(30,913)	(19,356)	(31,502)
Administrative and other operating expenses	(43,232)	(37,246)	(48,113)
Listing expenses	—	—	(5,819)
Finance costs	(16,109)	(22,878)	(22,545)
Profit before tax	34,861	51,357	55,777
Income tax expense	(6,516)	(8,450)	(8,297)
Profit for the year from Continuing Operations	28,345	42,907	47,480
Net profit margin from Continuing Operations	*6.6%*	*9.8%*	*9.6%*
Discontinued operation			
Profit/(loss) for the year from discontinued operation	7,152	4,802	(3,816)
Profit for the year	35,497	47,709	43,664
Profit for the year attributable to:			
Owners of the Company	28,460	38,901	35,427
Non-controlling interests	7,037	8,808	8,237
	35,497	47,709	43,664

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are subject to the influence of numerous factors. Some of the key factors are set out below:

Cigarette consumption in the PRC

The demand of our paper cigarette packages directly depends on the amount of cigarette consumption in the PRC, where we conduct our business. Though the overall PRC cigarette industry has undergone many tobacco control regulations in the past few years, according to Euromonitor, the cigarette market in the PRC maintained high growth rate over the years to reach RMB1,269.4 billion in retail sales value by the end of 2013, realizing a growth of 9.8% over 2012. Euromonitor also expects that by 2018, the cigarette market in the PRC will achieve RMB3,187.1 billion in retail sales value, attaining a CAGR of 20.2% over the period from 2013 to 2018. However, should there be a downturn in the cigarette market or the PRC economy due to regulatory changes, greater health awareness or any other reasons, our Group's business and results of operations may be adversely affected.

The market consolidation driven by the government policies

The cigarette market in China is controlled by the government, primarily STMA and CNTC. As per the promulgation of the Regulation on Tobacco Monopoly in early 1983, the Chinese government entered the tobacco retailing market with a pure top-down execution strategy. In recent years, the tobacco industry in the PRC has been undergoing restructuring and consolidation.

In 2000, there were more than 1,180 cigarette brands in mainland China and this was causing inefficiency in the cigarette industry. Thus, in 2001, STMA issued "Proposal on Accelerating Structural Adjustment for Cigarette Products" (關於加快卷煙產品結構調整的意見), framed "Strategic Research Outline of China Cigarette Brands" (中國卷煙品牌戰略研究提綱), and issued the list of "Famous and High Quality Cigarette Brands over the National Tobacco Industry, 2001" (2001年度全國菸草行業名優卷煙品牌), in which 36 brands were listed. In 2004, STMA issued a list of 100 brands (100個卷煙牌號名錄) to be retained, in a strategy aiming to reduce the number of cigarette brands within the coming two to three years. In 2008, STMA proposed a "20+10" plan to identify a total of 30 Key Cigarette Brands across the national market.

As a result of a series of government policies, according to China Tobacco and Euromonitor, the number of cigarette brands was reduced from 1,183 in 2001 to 138 in 2009 and then to 90 in 2013, while that of cigarette manufacturers from 146 in 2001 to 30 in 2009 and then to 26 in 2011. These 26 companies include one cigarette company, 16 Provincial Tobacco Industrial Companies and 9 other non-provincial companies from the China Tobacco Industry Development Center. The top 10 brands accounted for 45.3% in 2012 and their share increased to 47.5% in 2013. Meanwhile, the top 10 manufacturers increased their share in sales volume terms from 73.8% in 2012 to 74.9% in 2013.

The progressive efforts by the government in upgrading the cigarette industry through consolidation have provided entry barriers, in return benefiting package producers like us, that have maintained a solid and long-term relationship with the leading cigarette manufacturers. We are serving ten out of the total 16 Provincial Tobacco Industrial Companies and 5 tobacco enterprises under China Tobacco Industry Development Center. The products of our Group include cigarette packages for 15 of the 30 Key Cigarette Brands and many other cigarette brands. We have established over ten years of business relationship with most of our customers, thus our Directors believe that these long-term relationships can help our Group not only to secure a stable customer network and revenue source, but also to attract new customers and benefit the long-term business development of our Group. However, should any of the cigarette manufacturers and cigarette brands relevant to our products be eliminated from the market, our financial condition and results of operations could be adversely affected.

Competition

The cigarette packaging market in the PRC, though it experienced the recent government led consolidation, is still fragmented with a large number of manufacturers. There are over 100 companies in the PRC that place heavy concentrations on cigarette packaging and thousands of small to medium-sized packaging manufacturers that also claim an involvement and availability for cigarette packaging. We, therefore, face intensive competition with the large number of competitors in the cigarette packaging market in the PRC. For example, there are over 40 cigarette packaging suppliers that supplied cigarette packages to China Tobacco Hubei, one of our main customers, in 2012.

We compete with our competitors on various areas, including price and quality of products, manufacturing technology and equipment, industry knowledge, production capacity and customer relationship. A large amount of capital investment may be needed should we decide to upgrade our manufacturing equipment and increase our production capacity. To keep our competitive position in the market, we may also need to invest capital resources and human resources in employee training or hiring experienced technicians. To maintain and strengthen our customer relationships, we may need to incur a significant amount of management attention, expenses and human resources.

Production capacity

During the Track Record Period, our Group carried out our paper cigarette package and social product paper package design and production activities at the Yichang Factory and Dangyang Factory. As the Yichang Factory has been operating at high utilization rate during peak seasons, our Group commenced production at Dangyang Factory in order to further increase our production capacity in anticipation of potential business growth.

For the year ended 31 December 2011, 2012 and 2013, the actual production volume at our Yichang Factory for paper cigarette packages was approximately 138.7 million prints, 130.5 million prints and 142.7 million prints, respectively, with a utilisation rate of 64.7%, 62.4% and 71.2%, respectively. For the year ended 31 December 2011, 2012 and 2013, the actual production volume for paper cigarette packages at our Dangyang Factory was approximately 55.5 million prints, 54.8 million prints and 67.7 million prints, respectively, with a utilisation rate of 73.7%, 72.8% and 89.9%, respectively. For details of our production capacity, please refer to the section headed "Business — Production facilities" in this prospectus.

Our competitiveness to a large extent depends on our ability to expand production capacity and product range to increase our market share. We have been and will continue to expand our production capacity and product range to capture market opportunities. Details of our future expansion plans are set forth in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Cost of raw materials

Raw materials required for our production is primarily paper and to a lesser extent, ink and aluminum foil. The major component of our cost of sales was raw materials, which comprised approximately 67.6%, 72.3% and 77.6% of the total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively.

Our purchase of paper accounted for approximately 75.7%, 76.3% and 75.4% of our total cost of raw material for the years ended 31 December 2011, 2012 and 2013, respectively. Our Group procured approximately 14,176 tons, 14,791 tons and 18,485 tons of paper (including the amount of paper we purchased from our former subsidiary Hubei Mengke) and the average procurement price of paper was approximately RMB10,856 per ton, RMB11,665 per ton and RMB11,127 per ton for the years ended 31 December 2011, 2012 and 2013, respectively, our average procurement price of paper increased by 7.5% from 2011 to 2012 and decreased by 4.6% from 2012 to 2013. Key factors affecting the purchase price of paper include supply and demand in the market, the policies of the PRC government and market competition. Our results of operation may be either favorably or unfavorably affected by the fluctuation of paper price. Our procurement team carefully selects our supplier base on its product quality, product price, delivery lead time, after-sales services, technological understanding, reputation and financial stability. Since 2011, we started to use competitive tendering for supplier selection. However, we also purchase raw materials from suppliers designated by our customers.

During the Track Record Period, we did not enter into any long-term supply contracts with our raw material suppliers. We did not have any hedging facilities to minimize the risk of raw materials price fluctuation. As a result, the costs of our principle raw materials will subject to market fluctuations. Set out in the table below is the price sensitivity analysis of the gross profit and gross profit margin of our paper cigarette packages under scenarios of 5%, 7.5% and 10% increases in the price of paper during the Track Record Period.

Sensitivity Analysis

	Year ended 31 December		
	2011	**2012**	**2013**
Paper cigarette packages:			
Original gross profit *(RMB'000)*	125,711	120,232	153,884
Percentage change in gross profit:			
— 5% increase in paper price	–5.69%	–6.83%	–6.07%
— 7.5% increase in paper price	–8.53%	–10.24%	–9.10%
— 10% increase in paper price	–11.38%	–13.66%	–12.14%
Gross profit margin:			
— Original	30.55%	29.22%	32.78%
— 5% increase in paper price	28.81%	27.23%	30.79%
— 7.5% increase in paper price	27.95%	26.23%	29.79%
— 10% increase in paper price	27.08%	25.23%	28.80%
Decrease in gross profit *(RMB'000)*			
— 5% increase in paper price	–7,153	–8,212	–9,341
— 7.5% increase in paper price	–10,723	–12,312	–14,003
— 10% increase in paper price	–14,306	–16,424	–18,682

BASIS OF PRESENTATION

Our financial statements have been prepared as if our Company had been the holding company of the Group throughout the Relevant Periods in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where it is a shorter period. The statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence at those dates. For further details, please see Note 1 to the Accountants' Report in Appendix I to this prospectus.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The discussion and analysis of our financial position and results of operations as included in this prospectus is based on the combined financial statements prepared in accordance with HKFRS issued by the HKICPA, for which significant accounting policies are set out in Notes 2 to 4 of the Accountants' Report set out in Appendix I to this prospectus.

Set forth below are the most significant accounting policies, judgments and estimates used in the preparation of our financial statements:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the normal course of business, net of discounts and sales related taxes. Revenue from sale of goods is recognised when the goods are delivered and titles have passed with certain other conditions met. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Please refer to Note 3 to the Accountants' Report for further information.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below). At the end of each reporting period, we assess whether there is objective evidence that a financial asset or a group of financial assets is impaired. We derecognize financial assets when the rights to receive cash flow from the assets have expired or have been transferred and we have transferred substantially all risks and rewards of ownership.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realizable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment

At the end of the reporting period, our Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 immediately in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When our Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether our Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

MAJOR COMPONENTS OF THE COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Continuing Operations

Revenue

For the year ended 31 December 2011, 2012 and 2013, our revenue from the Continuing Operations amounted to RMB426.2 million, RMB438.5 million and RMB495.8 million, respectively, and were derived from two business segments, namely, (i) sale of paper cigarette packages; and (ii) sale of social product paper packages. Sales of paper cigarette packages was our key revenue driver which contributed 96.5%, 93.8% and 94.7% of our total revenue for the years ended 31 December 2011, 2012 and 2013, respectively. Sales of social product paper packages contributed 3.5%, 6.2% and 5.3% for the years ended 31 December 2011, 2012 and 2013, respectively.

The following table sets forth our revenue by product category for the years indicated:

	Year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Paper cigarette packages	411,461	411,408	469,513
Social product paper packages	14,787	27,125	26,260
	426,248	438,533	495,773

The following table sets forth our revenue, sales volume and average selling price of paper cigarette packages for the years indicated:

	Year ended 31 December								
	2011			2012			2013		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	RMB'000	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*
Paper cigarette packages	411,461	215,557	1,908.8	411,408	206,290	1,994.3	469,513	239,721	1,958.6

Note: Our paper cigarette packages can be categorized into two types by size: small cigarette packets each of which usually contain 20 sticks of cigarettes and carton packages each of which usually contain 10 cigarette packets. We measure our customer's purchase volume by number of pieces of unfolded cigarette packets and carton packages. The ratio of pieces of cigarette packets to carton packages that our customers purchase from us are usually in the proportion of 10:1. There are rounding differences between (i) the product of sales volume and average selling price; and (ii) revenues.

We do not provide sales volume and average selling price for our social product paper packages as their price varies significantly based on size, design and other factors. The size and weight of our social product paper packages vary by type, purpose and other factors. In addition, our revenue generated from selling social product paper packages accounted for less than 10% of our total revenue during the Track Record Period.

Cost of sales

Our cost of sales principally consisted of (i) cost of raw material (mainly cost of paper); (ii) manufacturing overhead, (mainly utilities and maintenance expenses during the production process); (iii) processing costs; and (iv) labour costs. Cost of raw material representing 67.6%, 72.3% and 77.6% of our total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively. Manufacturing overhead represented 18.1%, 18.9% and 16.3% of our total cost of sales for the years ended 31 December 2011, 2012 and 2013, respectively.

The following table sets forth the breakdown of our cost of sales for the years indicated:

	Year ended 31 December					
	2011		2012		2013	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Cost of raw material	202,371	67.6	226,668	72.3	262,064	77.6
Paper	153,199	51.2	172,967	55.2	197,482	58.5
Others	49,172	16.4	53,701	17.1	64,582	19.1
Manufacturing overhead	54,280	18.1	59,272	18.9	54,927	16.3
Processing costs	33,997	11.4	17,991	5.8	6,731	1.9
Labour costs	8,603	2.9	9,563	3.0	14,129	4.2
Total	299,251	100.0	313,494	100.0	337,851	100.0

Gross profit and gross profit margin

Our total gross profit amounted to RMB127.0 million, RMB125.0 million and RMB157.9 million for years ended 31 December 2011, 2012 and 2013, respectively, with respective gross profit margin of 29.8%, 28.5% and 31.9%.

For the years ended 31 December 2011, 2012 and 2013, gross profit of our paper cigarette packages was RMB125.7 million, RMB120.2 million and RMB153.9 million, respectively, with respective gross profit margin of 30.6%, 29.2% and 32.8%.

For the years ended 31 December 2011, 2012 and 2013, gross profit of our social products paper packages was RMB1.3 million, RMB4.8 million and RMB4.0 million, respectively, with respective gross profit margin of 8.7%, 17.7% and 15.4%.

Other income

Other income mainly consists of interest income on bank deposits, sundry income from the sale of scrap material, other interest income from entrusted loans made to Maoming Company, one of the former equity holders of a subsidiary of our Group and Hubei Mengke, a former subsidiary, and non-recurring government grants. For the years ended 31 December 2011, 2012 and 2013, our other income amounted to RMB4.8 million, RMB7.0 million and RMB8.4 million, respectively.

Other gains and losses

Other gains and losses comprise mainly net losses arising from disposal of property, plant and equipment, loss on disposal of subsidiary, gain on disposal of available-for-sale investments in relation to the disposal of our 5% equity interest in Hubei Mengke, impairment losses recognised on property, plant and equipment and recognition/reversal of impairment on trade receivables. For the years ended 31 December 2011, 2012 and 2013, our other gain and losses amounted to RMB6.7 million, RMB1.2 million and RMB2.6 million, respectively.

Selling and distribution expenses

Our selling and distribution expenses comprise: (i) delivery expenses for the transportation of our products to customers; (ii) staff costs and benefits relating to our Group's sales and marketing personnel; (iii) entertainment expenses incurred in customer hospitality activities during our normal course of business; (iv) travelling expenses of our staff incurred for the sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. For the years ended 31 December 2011, 2012 and 2013, our selling and distribution expenses amounted to RMB30.9 million, RMB19.4 million and RMB31.5 million, respectively, which accounted for 7.3%, 4.4%, 6.4% of our total revenue for the corresponding years, respectively.

Administrative and other operating expenses

Administrative and other operating expenses consist of (i) staff cost and benefits relating to our Group's administrative personnel; (ii) travelling expenses; (iii) depreciation expenses arising from daily operation; (iv) entertainment expense; (v) research and development; (vi) office expenses; and (vii) other expenses incurred in relation to our administrative operations. For the years ended 31 December 2011, 2012 and 2013, our administrative and other operating expenses amounted to RMB43.2 million, RMB37.2 million and RMB48.1 million, respectively, which accounted for 10.1%, 8.5%, 9.7% of our total revenue for the corresponding periods, respectively.

Listing expenses

We estimate to incur legal, professional and other fees (including underwriting commission) with respect to the Listing in the total amount of HK$38.8 million (approximately RMB30.8 million). In accordance with HKFRS, listing related expenses directly attributable to the Share Offer are recorded as prepaid expenses, which will be deducted from equity upon Listing with the remaining listing related expenses charged through income statements.

For the years ended 31 December 2011, 2012 and 2013, our Group incurred listing expenses of nil, nil and RMB6.7 million, respectively, of which RMB5.8 million was fully charged to the income statement for the year ended 31 December 2013 and RMB0.9 million will be deducted from equity upon Listing. The remaining estimated listing expenses of RMB24.1 million is expected to be incurred in 2014, of which RMB16.4 million is expected to be charged to our income statement for the year ended 31 December 2014 and RMB7.7 million is expected to be deducted from equity upon Listing.

Finance costs

Our finance costs primarily consist of interest payments on interest-bearing obligations, finance costs arising on early redemption of note receivables when we sell our note receivables to the banks and other financial institutions at a discount in exchange for immediate cash and bank fees and charges. For the years ended 31 December 2011, 2012 and 2013, our finance costs amounted to RMB16.1 million, RMB22.9 million and RMB22.5 million, respectively.

Income tax

We were incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law. The Cayman Islands currently levy no taxes on corporations based upon profits, income, gains or appreciations. Our subsidiary incorporated in the BVI is registered as a BVI business company under the BVI Business Companies Act and exempted from all provisions of the BVI Income Tax Act (as amended). For our subsidiary incorporated in Hong Kong, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods. No provision for Hong Kong Profits Tax has been made as our Group had no assessable profit subject to Hong Kong Profits Tax during the Relevant Periods. Our tax charges mainly represent the PRC corporate income tax and deferred income tax during the Track Record Period.

Our major operating subsidiary, Hubei Golden Three Gorges, was qualified as high technology enterprises in the years ended 31 December 2011, 2012 and 2013, and enjoyed a preferential enterprise income tax rate of 15% during such years. Under the 2008 EIT Law and the relevant regulations, the 15% preferential enterprise income tax rate is subject to review and approval by the tax authorities every three years and is set to expire by the end of 2015. Other than Hubei Golden Three Gorges, all of our operating subsidiaries in the PRC were subject to a statutory tax rate of 25% during the Track Record Period.

Discontinued Operation

In February 2013, we completed the disposal of our 70% equity interest in Hubei Mengke, a subsidiary engaged in the production, processing and sales of high-grade paper, paper board and plastic business. In July 2013, we completed the disposal of our remaining 5% equity interest in Hubei Mengke and therefore disposed of all our equity interest in Hubei Mengke. As Hubei Mengke was our only subsidiary that carried out our paper production business, our paper production business was discontinued after our disposal of our entire equity interest in Hubei Mengke.

REVIEW OF HISTORICAL OPERATING RESULTS

Set out below is the summary of the key financial ratios of our Group during the Track Record Period:

	Year ended 31 December		
	2011	2012	2013
Net profit growth *(Note a)*	(21.3%)	51.4%	10.7%
Gross profit margin *(Note b)*	29.8%	28.5%	31.9%
Net profit margin *(Note c)*	6.6%	9.8%	9.6%
Return on equity *(Note d)*	24.4%	28.4%	141.9%
Return on total assets *(Note e)*	4.5%	6.2%	8.3%
Average inventory turnover days *(Note f)*	78	75	71
Average trade and note receivables turnover days *(Note g)*	102	114	121
Average trade and note payables turnover days *(Note h)*	239	222	204
Current ratio *(Note i)*	0.9	0.9	0.8
Quick ratio *(Note j)*	0.7	0.8	0.7
Gearing ratio *(Note k)*	155.5%	139.3%	443.7%
Debt to equity ratio *(Note l)*	136.6%	117.6%	396.2%
Interest coverage *(Note m)*	3.6	4.0	5.0

Notes:

a. Net profit growth for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on the percentage change of profit for the year from Continuing Operations from the previous year.

b. Gross profit margin for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on gross profit for the respective year from Continuing Operations divided by the revenue of Continuing Operations for the respective years.

c. Net profit margin for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on profit for the year from Continuing Operations for the respective year divided by the revenue of Continuing Operations for the respective year.

d. Return on equity for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on the profit for the year from Continuing Operations for the respective year divided by the equity attributable to the owners from Continuing Operations as at end of the respective year and multiplied by 100%.

e. Return of total assets for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on the profit for the year from Continuing Operations for the respective year divided by the total assets from Continuing Operations as at end of the respective year and multiplied by 100%.

f. Average inventory turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of inventories balance from Continuing Operations of the year divided by the cost of sales of Continuing Operations the respective year and multiplied by 365 days.

g. Average trade and note receivables turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of trade and note receivables balance from Continuing Operations of the year divided by the revenue of Continuing Operations of the respective year and multiplied by 365 days.

h. Average trade and note payables turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of trade and notes payables balance from Continuing Operations of the year divided by the cost of sales of Continuing Operations of the respective year and multiplied by 365 days.

i. Current ratios as at 31 December 2011, 2012 and 2013 were calculated based on the total current assets from Continuing Operations as at the respective date divided by total current liabilities from Continuing Operations as at the respective date.

j. Quick ratios as at 31 December 2011, 2012 and 2013 were calculated based on the current assets minus inventories from Continuing Operations as at the respective date divided by total current liabilities from Continuing Operations as at the respective date.

k. Gearing ratios as at 31 December 2011, 2012 and 2013 were calculated based on the total debt from Continuing Operations as at the respective date divided by total equity from Continuing Operations as at the respective date and multiplied by 100%.

l. Debt to equity ratios as at 31 December 2011, 2012 and 2013 were calculated based on the total debt minus cash and cash equivalents from Continuing Operations as at the respective date divided by total equity from Continuing Operations as at the respective date and multiplied by 100%.

m. Interest coverage for each of the years ended 31 December 2011, 2012 and 2013 were calculated based on the profit for the year from Continuing Operations before deducting interest paid and income tax expenses for the respective year divided by interest paid for the respective year.

Further details on net profit growth, gross profit margin, net profit margin, average inventory turnover days, average trade and note receivables turnover days and average trade and note payables turnover days are set out in the paragraphs headed ''Year to Year Comparison'' and ''Inventories'', ''Trade and note receivables'' and ''Trade and other payables'' respectively in this section.

Our return on equity was 24.4%, 28.4% and 141.9% as at 31 December 2011, 2012 and 2013. Our return on equity increased to 28.4% in 2012 compared to 24.4% in 2011, primarily due to a significant increase in net profit of 51.4% from 2011 to 2012. Return on equity in 2013 was 141.9% mainly due to the reduction of the total equity base as a result of the Reorganisation of our Group.

Our return on total assets ratio increased from 4.5% in 2011 to 6.2% as at 31 December 2012 as we improved our profitability through our stringent cost-control policy to minimise the operating costs. Return on assets further increased to 8.3% in 2013 mainly due to the increase in net profit by 10.7% in 2013, while partially offset by the decrease in total asset.

The current ratio remained stable at 0.9 as at 31 December 2011 and 2012 whereas the quick ratio slightly increased from 0.7 to 0.8 for the year ended 31 December 2012 due to the increase in current assets as a result of the increase in our trade and other receivables of RMB88.3 million. Our current ratio and quick ratio decreased to 0.8 and 0.7 as at 31 December 2013 mainly due to (i) the increase in amounts due to related parties by RMB125.0 million represented unsettled consideration payables under the Reorganisation of our Group; and (ii) the decrease in current assets due to the settlement of amounts due from related parties in 2013.

As at 31 December 2011, 2012 and 2013, our gearing ratio were 155.5%, 139.3%, 443.7%, respectively. The decrease in 2012 was mainly due to the increase in our total equity base in 2012. The significant increase in 2013 was mainly attributable to (i) the reduction of total equity base as a result of the Reorganisation of our Group; and (ii) additional debt in the form of amounts due to related parties of approximately RMB125.0 million being recorded in 2013. As at 31 December 2011, 2012 and 2013, our debt to equity ratio were 136.6%, 117.6% and 396.2%, respectively and experienced a similar trend to that of gearing ratio.

Our interest coverage was 3.6, 4.0 and 5.0 as at 31 December 2011, 2012 and 2013. The increase in our interest coverage as at 31 December 2012 was primarily due to increase in operating profit by 47.3% while partially by increase in our interest paid relating to additional borrowings. Our interest coverage further increased to 5.0 in 2013 mainly due to the slightly decrease in interest paid caused by the reduction in borrowings as at 31 December 2013.

YEAR TO YEAR COMPARISON

Year ended 31 December 2012 compared to year ended 31 December 2013

Revenue

Revenue increased by 13.1% or RMB57.3 million, from RMB438.5 million for the year ended 31 December 2012 to RMB495.8 million for the year ended 31 December 2013. Such increase was mainly attributable to the increase in sale from paper cigarette packages, which represented about 93.8% and 94.7% of our total revenue for the year ended 31 December 2012 and 2013, respectively. The following table shows our revenue, sales volume and average selling price of paper cigarette packages for 2012 and 2013.

	Year ended 31 December						
	2012			2013			
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Change in revenue
	RMB'000	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*	*%*
Paper cigarette packages	411,408	206,290	1,994.3	469,513	239,721	1,958.6	14.1

Paper cigarette packages

Revenue from paper cigarette packages increased by 14.1%, from RMB411.4 million in 2012 to RMB469.5 million in 2013. Such increase was mainly due to the increase in the sales volume of our paper cigarette packages from 206,290 ten thousand pieces in 2012 to 239,721 ten thousand pieces in 2013, partially offset by the slight decrease in the average selling price of our paper cigarette packages in 2013. In particular, (i) the sales to our key customers, China Tobacco Chuanyu, China Tobacco Hubei and China Tobacco Henan, increased from RMB90.1 million, RMB25.0 million and RMB15.3 million respectively in 2012 to RMB112.4 million, RMB59.0 million and RMB57.5 million, respectively in 2013; and (ii) more sales of cigarette packages of the Pride (嬌子) brand were placed with our Group in 2013.

Social product paper packages

Revenue from social product paper packages slightly decreased by 3.0% from RMB27.1 million for the year ended 31 December 2012 to RMB26.3 million for the year ended 31 December 2013 mainly due to (i) the decrease in number of customers from 23 in 2012 to 18 in 2013, as we received fewer purchase orders in 2013; and (ii) in early 2013, in order to attract sales to customers that require higher-value products, we reallocated more labor resources to our new product line which requires more sophisticated craftsmanship. In view of our limited labour resources allocated for social product paper packages production, the production volume of our other social product paper packages was reduced. The above, together with the fact that our new product line was still in its initial production phase, led to a decrease in our revenue from sales of social product paper packages in 2013.

Cost of sales

Cost of sales increased by 7.8% or RMB24.4 million, from RMB313.5 million for the year ended 31 December 2012 to RMB337.9 million for the year ended 31 December 2013. Cost of raw material and manufacturing overhead are the major components of our cost of sales. Cost of raw material represented 72.3% and 77.6% of the total cost of sales in 2012 and 2013, respectively, while manufacturing overhead represented 18.9% and 16.3% of the total cost of sales in 2012 and 2013, respectively. The following table sets forth a breakdown of our cost of sales for the years indicated:

	Year ended 31 December				
	2012	**% of total cost of sales**	**2013**	**% of total cost of sales**	**Change %**
Cost of raw material	226,668	72.3	262,064	77.6	15.6
Paper	172,967	55.2	197,482	58.5	14.2
Others	53,701	17.1	64,582	19.1	20.3
Manufacturing overhead	59,272	18.9	54,927	16.3	(7.3)
Processing costs	17,991	5.8	6,731	1.9	(62.6)
Labour costs	9,563	3.0	14,129	4.2	47.7
Total	313,494	100.0	337,851	100.0	7.8

Paper cigarette packages

The cost of sales of our paper cigarette packages increased by 8.4% from RMB291.2 million in 2012 to RMB315.6 million in 2013. Such increase was in line with the increase in sales volume of our paper cigarette packages to meet the sales demand in 2013. The increase in the proportion of our cost of raw materials in 2013 was owing to the fact that we produced all of our products at our own factories after ceasing outsourcing some of our paper cigarette package production since September 2013, resulting a decrease of processing costs and increase in the demand of raw material.

Social product paper packages

The cost of sales of our social product paper packages remained stable at RMB22.3 million in 2012 and RMB22.2 million in 2013, which is consistent with the stability of the revenue generated from the sales of our social product paper packages between 2012 and 2013.

Gross profit and gross profit margin

Our gross profit increased by 26.3% to RMB157.9 million for the year ended 31 December 2013 from RMB125.0 million for the year ended 31 December 2012.

The following table sets forth our gross profit and gross profit margin by product category for the years indicated:

	Year ended 31 December				Year to year gross profit growth %
	2012		2013		
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	
	RMB'000	%	*RMB'000*	%	%
Paper cigarette packages	120,232	29.2	153,884	32.8	28.0
Social product paper packages	4,807	17.7	4,038	15.4	(16.0)

Our gross profit for the sales of paper cigarette packages increased by RMB33.7 million or 28.0% to RMB153.9 million for the year ended 31 December 2013 from RMB120.2 million in the year ended 31 December 2012. Such increase was in line with the increase in our sales of paper cigarette packages in 2013, and such increase mainly included (i) an increase of RMB11.7 million in gross profit from sales to our customer China Tobacco Chuanyu from RMB31.2 million in 2012 to RMB42.9 million in 2013; (ii) an increase of RMB14.8 million in gross profit from sales to our customer China Tobacco Hubei from RMB7.9 million in 2012 to RMB22.7 million in 2013; and (iii) an increase of RMB6.7 million in gross profit from sales to our customer Shanxi Kunming Tobacco from RMB5.8 million in 2012 to RMB12.5 million in 2013.

We recorded a growth of gross profit margin in the sales of paper cigarette packages from 29.2% in 2012 to 32.8% in 2013. The increase in gross profit margin was mainly because (i) we sold a larger volume of paper cigarette packages that had a comparatively higher gross profit margin; (ii) our equipment utility rate of our manufacturing line increased, reflected by the increase in our production and sales volume; and (iii) we were able to achieve economies of scale in our production as the production volume increased.

Our gross profit for the sales of social product paper packages decreased by 16.7% to RMB4.0 million for the year ended 31 December 2013 from RMB4.8 million for the year ended 31 December 2012 mainly due to the decrease in revenue from the sales of our social product paper packages in 2013. The gross profit margin was 17.7% for the year ended 31 December 2012 and 15.4% for the year ended 31 December 2013. The decrease in gross profit margin was mainly because of the relatively low profitability and lack of economies of scale for our fine craftsmanship product line launched in early 2013. This new product line is still in the preliminary production stage with low equipment utility rate and we are still in the beginning of developing the sales market for the products.

Other income

Other income increased by RMB1.4 million or 20.0% from RMB7.0 million for the year ended 31 December 2012 to RMB8.4 million for the year ended 31 December 2013. Such increase reflects the net effect of (i) the increase in sundry income of RMB1.9 million from the sales of scrap materials as a result of the increased purchase of raw materials in 2013; (ii) the increase of RMB0.5 million in interest income on bank deposits; and (iii) the RMB0.7 million interest income on the loan made to Hubei Mengke in 2013, which was RMB0.8 million less than our interest income of RMB1.5 million on our loan made to Maoming Company.

Other gain and losses

Other losses increased by RMB1.4 million or 116.7% or from RMB1.2 million for the year ended 31 December 2012 to RMB2.6 million for the year ended 31 December 2013. Such increase was mainly due to a loss of RMB2.1 million recognised in relation to our disposal of property, plant and equipment mainly to Mengke.

Selling and distribution expenses

The following table sets forth the breakdown of our selling and distribution expenses of our continuing operations for the years indicated:

	Year ended 31 December				
	2012		**2013**		**Change**
	RMB'000	*%*	*RMB'000*	*%*	*%*
Delivery expenses	7,309	37.7	8,332	26.4	14.0
Staff costs and benefits	4,581	23.7	9,210	29.2	101.0
Entertainment expenses	2,430	12.6	2,385	7.6	(1.9)
Travelling expenses	3,300	17.0	6,337	20.1	92.0
Administrative expenses	1,044	5.4	3,111	9.9	198.0
Other expenses	692	3.6	2,127	6.8	207.4
Total	19,356	100.0	31,502	100.0	62.8

Selling and distribution expenses increased by RMB12.1 million, or 62.8%, from RMB19.4 million for the year ended 31 December 2012 to RMB31.5 million for the year ended 31 December 2013. As a percentage of revenue, selling and distribution expenses increased from 4.4% in 2012 to 6.4% in 2013.

As the government introduced tendering system in 2011 in selecting paper cigarette packages, we spent a large amount of resource in preparing the bidding. As our sales contracts usually have a term of one year or two years, we spent less resource in bidding in 2012 when some of our contracts expired, and more resource in bidding in 2013 when most of our contracts expired. The selling and distribution expenses incurred in preparing our bids are mainly reflected as an increase in our travelling expenses as we need to make more business trips to our customers and other bidding locations and an increase in our administrative expenses as we spend more human resource and conducted more administrative work relating to our bidding. Our preparation of bidding for customers' orders in 2013 was the main reason for the increase in our travelling expenses and administrative expenses in 2013.

From the later half of 2011, the cigarette manufacturers started to implement the government introduced tendering system in selecting cigarette packaging suppliers. The tendering system intensified the competition among cigarette packaging suppliers and we were uncertain of the severity of its adverse impact on our revenue and profitability. In response to this situation, we implemented expense reduction measures within our Group, under which we significantly reduced our expenses in various areas, including (i) staff cost, including employee bonus, perks, welfare and other benefits and team-building activities; (ii) general administrative matter related to sales and marketing; and (iii) other general and miscellaneous expenses. This was reflected as the lower amount of staff costs, administrative expenses and other expenses in 2012 compared to those in 2011 and 2013. In 2013, we no longer implemented strict cost reduction measures to improve employee moral as the impact of the new tendering system become more clear.

Our delivery expenses increased by RMB1.0 million from RMB7.3 million in 2012 to RMB8.3 million in 2013 as our product sales volume increased in 2013.

Administrative and other operating expenses

The following table sets forth the breakdown of our administrative and other operating expenses of our continuing operations for the years indicated:

	Year ended 31 December				**Change in**
	2012		**2013**		**%**
	RMB'000	*%*	*RMB'000*	*%*	
Staff costs and benefits	6,352	17.1	9,322	19.4	46.8
Depreciation	2,940	7.9	2,905	6.0	(1.2)
Travelling expenses	1,552	4.2	4,773	9.9	207.5
Entertainment expenses	311	0.8	300	0.6	(3.5)
Research and development	14,664	39.4	16,872	35.1	15.1
Office expenses	3,867	10.4	6,562	13.6	69.7
Other taxation expenses	4,689	12.6	5,637	11.7	20.2
Other expenses	2,871	7.6	1,742	3.7	39.3
Total	37,246	100.0	48,113	100.0	29.2

Administrative and other operating expenses increased by RMB10.9 million, or 29.2% from RMB37.2 million in 2012 to RMB48.1 million in 2013. As a percentage of revenue, it increased from 8.7% in 2012 to 9.7% in 2013. The significant increase in such expenses between 2012 and 2013 was primarily because of our business growth, as reflected from increased in revenues in 2013, as well as the expense reduction measures we implemented in 2012 as discussed above. Our travelling expenses and office expenses also increased in 2013 as our management and professional parties travelled more relating to the preparation of the Listing and the increase in general office matters in connection with the Listing.

Finance costs

Our finance costs decreased by 1.7% or RMB0.4 million, from RMB22.9 million for the year ended 31 December 2012 to RMB22.5 million for the year ended 31 December 2013. Such decrease was mainly due to the net off effect of (i) a decreases of bank and other borrowings; and (ii) our increase of financing activities arising on early redemption of note receivables to enhance cash flow.

Income tax expense

Our income tax expense decreased by RMB0.2 million due to a net deferred tax credit of RMB2.3 million in 2013 in comparison with the RMB0.4 million net deferred tax liability in 2012. The decrease was partially offset by an increase of RMB2.6 million in the PRC income tax.

Profit for the year from continuing operations

For the foregoing reasons, profit for the year from continuing operations increased to RMB47.5 million for the year ended 31 December 2013 from RMB42.9 million for the year ended 31 December 2012.

Profit for the year

After taking into account a loss for the year from discontinued operation in the amount of RMB3.8 million in 2013 compared to a profit of RMB4.8 million in 2012, profit for the year decreased by RMB4.0 million to RMB43.7 million for the year ended 31 December 2013 from RMB47.7 million for the year ended 31 December 2012.

Year ended 31 December 2012 compared to year ended 31 December 2011

Revenue

Revenue increased by 2.9%, from RMB426.2 million for the year ended 31 December 2011 to RMB438.5 million for the year ended 31 December 2012. The increase was mainly attributable to an increase in revenue from sales of social product paper packages in 2012. The following table shows our revenue, sales volume and average selling price of paper cigarette packages for 2011 and 2012:

	Year ended 31 December						
	2011			2012			
	Revenue	**Sales volume**	**Average selling price**	**Revenue**	**Sales volume**	**Average selling price**	**Change in revenue**
	RMB'000	*ten thousand pieces*	*RMB per ten thousand pieces*	*RMB'000*	*ten thousand pieces*	*RMB per ten thousand pieces*	*%*
Paper cigarette packages	411,461	215,557	1,908.8	411,408	206,290	1,994.3	0.01

Paper cigarette packages

Our sales of paper cigarette packages represented 96.5% and 93.8% of the total revenue for the years ended 31 December 2011 and 2012, respectively. Our sales of paper cigarette packages remained relatively stable between 2011 and 2012 at RMB411.4 million. Such outcome was mainly attributable to the 4.5% increase in our average selling price of paper cigarette packages from RMB1,908.8 per ten thousand pieces in 2011 to RMB1,994.3 per ten thousand pieces in 2012, offset by the 4.3% decrease in the sales volume from 215,557 ten thousand pieces in 2011 to 206,290 ten thousand pieces in 2012. The increase in the average selling price was mainly due to the increased proportion of the sales volume of paper cigarette packages with relatively higher selling prices such as Pride X (嬌子X) brand and Hongtashan Classic 100 (紅塔山經典100) brand purchased by our customer China Tobacco Chuanyu.

Social product paper packages

Our revenue from the sales of social product paper packages increased by 83.1% from RMB14.8 million for the year ended 31 December 2011 to RMB27.1 million for the year ended 31 December 2012. Such increase was mainly attributable to (i) a substantial increase in sales orders by one of our customers in 2012, a renowned liquor manufacturer in the PRC, which generated revenue of RMB13.5 million in 2012 in contrast to RMB1.7 million in 2011; and (ii) an increase in the total volume of sales orders placed with us by an increased number of customers from 19 in 2011 to 23 in 2012.

Cost of sales

The following table sets forth a breakdown of our cost of sales for the years indicated:

	Year ended 31 December				
	2011	% of total cost of sales	2012	% of total cost of sales	Change %
Cost of raw material	202,371	67.6	226,668	72.3	12.0
Paper	153,199	51.2	172,967	55.2	12.9
Others	49,172	16.4	53,701	17.1	9.2
Manufacturing overhead	54,280	18.1	59,272	18.9	9.2
Processing costs	33,997	11.4	17,991	5.7	(47.1)
Labour costs	8,603	2.9	9,563	3.1	11.2
Total	299,251	100.0	313,494	100.0	4.8

Cost of sales increased by 4.8% or RMB14.2 million, from RMB299.3 million for the year ended 31 December 2011 to RMB313.5 million for the year ended 31 December 2012 mainly due to increased sales in 2012. Cost of raw material costs remained our major component of our cost of sales, representing 67.6% and 72.3% of our total cost of sales in 2011 and 2012, respectively. The increase in the proportion of our cost of raw materials in 2012 was mainly due to the decrease in our outsourced production of cigarette packages, which led to the decrease in processing costs and increase in cost of raw materials.

Paper cigarette packages

Cost of sales from paper cigarette packages increased slightly from RMB285.8 million for the year ended 31 December 2011 to RMB291.2 million for the year ended 31 December 2012 even though the production and sales volume of our paper cigarette packages decreased modestly from 2011 to 2012, mainly due to the increase in the volume of products with a higher unit cost in 2012.

Social product paper packages

Cost of sales from social product paper packages products increased by 65.2% from RMB13.5 million for the year ended 31 December 2011 to RMB22.3 million for the year ended 31 December 2012. The increase was mainly due to the increase in production and sales volume of social product paper packages in 2012.

Gross profit and gross profit margin

Our gross profit remained relatively stable at RMB127.0 million and RMB125.0 million for the years ended 31 December 2011 and 2012, respectively.

The following table sets forth our gross profit and gross profit margin by product category for the years indicated:

	Year ended 31 December				
	2011		2012		
	Gross profit *RMB'000*	**Gross profit margin** *%*	**Gross profit** *RMB'000*	**Gross profit margin** *%*	**Year to year gross profit** *growth/ (decrease) %*
Paper cigarette packages	125,711	30.6	120,232	29.2	(4.4)
Social product paper packages	1,286	8.7	4,807	17.7	273.8

The gross profit from the sales of paper cigarette packages for the year ended 31 December 2012 was RMB120.2 million, representing a decrease of 4.4% from RMB125.7 million for the year ended 31 December 2011. The gross profit margin of our sales of paper cigarette packages remained relatively stable at 30.6% in 2011 and 29.2% in 2012.

The gross profit from the sales of social product paper packages for the year ended 31 December 2012 was RMB4.8 million, representing an increase by 2.7 times from RMB1.3 million for the year ended 31 December 2011, mainly due to the increase in production and sales of social product paper packages in 2012. The gross profit margin of our sales of social product paper package for the year ended 31 December 2012 was 17.7%, compared to 8.7% for the year ended 31 December 2011. The higher gross profit margin for our social product paper packages in 2012 was mainly because we sold a large amount of colored boxes to a renowned liquor manufacturer in 2012 which has a higher gross profit margin compared to our other social product paper packages.

Other income

Other income increased by RMB2.2 million, or 45.8%, from RMB4.8 million for the year ended 31 December 2011 to RMB7.0 million for the year ended 31 December 2012. Such increase was primarily due to (i) an increase of RMB2.1 million in interest income on bank deposits as a result of the change from a floating interest rate of 0.4%-0.5% for the year ended 31 December 2011 to a fixed interest rate of 2.8% to 3.1% on pledged bank deposits for the year ended 31 December 2012; and (ii) additional increase in income of RMB1.5 million from an entrusted loan made to Maoming Company, which is one of the former equity holders of a subsidiary of our Group.

Other gain and losses

Other losses decreased by RMB5.5 million, or 82.1%, from RMB6.7 million for the year ended 31 December 2011 to RMB1.2 million for the year ended 31 December 2012. The decrease in other losses in 2012 was mainly due to a decrease of RMB5.9 million of impairment losses on property, plant and equipment in 2012 as certain production facilities were written down to their recoverable amounts as a result of the revaluation.

Selling and distribution expenses

The following table sets forth the breakdown of our selling and distribution expenses for the years indicated:

	Year ended 31 December				
	2011		**2012**		**Change %**
	RMB'000	*%*	*RMB'000*	*%*	
Delivery expenses	7,179	23.2	7,309	37.7	1.8
Staff costs and benefits	8,761	28.3	4,581	23.7	(47.7)
Entertainment expenses	3,195	10.3	2,430	12.6	(23.9)
Travelling expenses	6,177	20.0	3,300	17.0	(46.6)
Administrative expenses	3,567	11.6	1,044	5.4	(70.7)
Other expenses	2,034	6.6	692	3.6	(66.0)
Total	30,913	100.0	19,356	100.0	(37.4)

Selling and distribution expenses decreased by RMB11.5 million. or 37.4% from RMB30.9 million in 2011 to RMB19.4 million in 2012. The significant decrease in selling and distribution expenses in 2012 was mainly because of the expense reduction measures we implemented in 2012 as discussed earlier in this section. Also, our travelling expenses decreased in 2012 because our selling and marketing staff travelled more in 2011 to bid for customer orders as the tendering system was introduced in 2011. In addition, we incurred more administrative expenses in 2011 relating to our preparation for our bid in 2011.

Administrative and other operating expenses

The following table sets forth the breakdown of administrative and other operating expenses of our continuing operations for the years indicated:

	Year ended 31 December				
	2011		2012		Change %
	RMB'000	%	*RMB'000*	%	
Staff costs and benfits	9,074	21.0	6,352	17.1	(30.0)
Depreciation	3,016	7.0	2,940	7.9	(2.5)
Travelling expenses	2,589	5.9	1,552	4.2	(40.1)
Entertainment expenses	609	1.4	311	0.8	(48.9)
Research and development	14,807	34.3	14,664	39.4	(1.0)
Office expenses	6,876	15.9	3,867	10.4	(43.8)
Other taxation expenses	5,246	12.1	4,689	12.6	(10.6)
Other expenses	1,015	2.4	2,871	7.6	182.9
Total	43,232	100.0	37,246	100.0	(13.8)

Administrative and other operating expenses decreased by RMB6.0 million, from RMB43.2 million for the year ended 31 December 2011 to RMB37.2 million for the year ended 31 December 2012. As a percentage of revenue, it decreased from 10.1% in 2011 to 8.5% in 2012. The overall decrease was mainly due to our expense reduction measures in 2012 as discussed above.

Finance costs

Our finance costs increased by RMB6.8 million, or 42.2%, from RMB16.1 million for the year ended 31 December 2011 to RMB22.9 million for the year ended 31 December 2012, primarily due to (i) an increase of RMB3.6 million in our interest expense as a result of the increase in average bank loan drawn in 2012; and (ii) an increase of RMB3.4 million in our finance costs arising on early redemption of note receivables to help increase our working capital. The increase in finance costs was partially offset by the decrease of other bank charges of RMB0.2 million 2012.

Income tax expense

Our income tax expense increased by RMB2.0 million from RMB6.5 million in 2011 to RMB8.5 million in 2012, mainly due to an increase of RMB2.0 million in the PRC income tax as a result of our increased operating profit and taxable income.

Profit for the year from continuing operations

For the foregoing reasons, profit for the year from continuing operations increased to RMB42.9 million for the year ended 31 December 2012 from RMB28.3 million for the year ended 31 December 2011.

Profit for the year

After taking into account a profit for the year from discontinued operation of RMB4.8 million in 2012 and RMB7.2 million in 2011, our profit increased to RMB47.7 million for the year ended 31 December 2012 from RMB35.5 million for the year ended 31 December 2011.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our working capital and capital expenditure principally through net cash inflows from operating activities and borrowings. We currently expect that there will not be any material change in the sources and uses of cash after the Share Offer, except that we would have additional funds from proceeds of the Share Offer for implementing our future plans as detailed under the section headed "Future Plans and Use of Proceeds" in this prospectus.

Cash flows

The following table sets forth a summary of our combined statements of cash flows for each of the years indicated. The summary of combined statements of cash flows is extracted from the Accountants' Report set out in Appendix I to this prospectus and should be read in conjunction with the entire financial statements included therein, including the notes thereto. The net cash inflows/(outflows) from our discontinued operation for the year ended 31 December 2011, 2012 and 2013 were consolidated with those from our continuing operations for the same period and amounted to RMB0.8 million, RMB(1.1 million) and RMB7.1 million, respectively. For a separate presentation of the net cash inflows/(outflows) from our discontinued operation for the years ended 31 December 2011, 2012 and 2013, please see Note 13 of the Accountants' Report set forth in the Appendix I to this prospectus.

	For the year ended 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from operating activities	88,723	48,230	92,856
Net cash (used in)/generated from investing activities	(115,107)	(16,502)	6,823
Net cash generated from/(used in) financing activities	30,029	(22,208)	(111,554)
Net increase/(decrease) in cash and cash equivalents	3,645	9,520	(11,875)
Cash and cash equivalents at beginning of the year	28,673	32,318	41,838
Cash and cash equivalents at end of the year	32,318	41,838	29,963

Cash flow from operating activities

Our cash inflow is primarily derived from the sales of paper cigarette packages and social product packages. Our cash outflow for operating activities is primarily used for purchases of raw materials, selling and distribution costs, administrative and other operating expenses and taxes. Cash flows from operating activities can be significantly affected by factors such as the timing of collections of trade receivables from customers and payments of trade payables to suppliers during the regular course of business.

For the year ended 31 December 2013, our net cash generated from operating activities was RMB92.9 million reflecting cash generated from operations of RMB97.4 million, interest received of RMB4.3 million and income tax paid of RMB8.9 million. Operating cash flows before movement in working capital was RMB100.6 million. The decrease of RMB3.2 million was primarily attributable to the increase in trade and other payables by RMB9.1 million due to the increase in purchase of raw materials to meet our production needs, coupled with an increase of RMB5.8 million in amount due to former equity holders of a subsidiary, partly offset by an increase in inventories of RMB18.1 million in anticipation of the increased sales in 2014. Amongst this, net cash inflows from operating activities incurred by the discontinued operation was RMB10.7 million for the year ended 31 December 2013.

For the year ended 31 December 2012, our net cash generated from operating activities was RMB48.2 million, reflecting cash generated from operations of RMB49.8 million, interest received of RMB5.4 million and income tax paid of RMB7.0 million. Operating cash flow before movements in working capital was RMB103.3 million. The decrease of RMB53.4 million primarily attributable to the increase in trade and other receivables of RMB126.6 million as a result of increase in sales in 2012 while partially offset by the increase in trade and other payables of RMB73.9 million caused by the increase in procurement of raw materials in 2012. Amongst this, net cash inflows from operating activities incurred by the discontinued operation was RMB17.0 million for the year ended 31 December 2012.

For the year ended 31 December 2011, our net cash generated from operating activities was RMB88.7 million, reflecting cash generated from operations of RMB95.2 million, interest received of RMB1.8 million and income tax paid of RMB8.3 million. Operating cash flows before movements in working capital were RMB93.5 million. The increase of RMB1.7 million was primarily attributable to (i) the decrease in trade and other payables of RMB43.9 million as a result of relatively more cash was used to settle the purchases of raw materials; and (ii) an increase in inventories of RMB8.7 million mainly due to the increase in finished goods to meet our customer orders, partially offset by a decrease in trade and other receivables of RMB53.1 million as customers settled outstanding receivables in 2013. Amongst this, net cash inflows from operating activities incurred by the discontinued operation was RMB6.9 million for the year ended 31 December 2011.

Cash flow from investing activities

Our cash inflow from investing activities primarily consists of released pledged bank deposits, proceeds from disposal of property, plant and equipment, and deposit received in respect of disposal of a subsidiary. Our cash outflow for investing activities primarily consists of use of pledged bank deposits, acquisition of prepaid lease payments, purchases of property, plant and equipment, purchase of available-for-sale investment, and loan to amounts due from former equity holders of a subsidiary.

For the year ended 31 December 2013, our net cash generated from investing activities amounted to RMB6.8 million and was mainly from (i) advances of RMB32.0 million from Controlling Shareholder and Mr. Feng, our director; and (ii) proceeds from disposal of property, plant and equipment by approximately RMB13.8 million due to sale of staff quarter and certain facilities. The cash inflow was partially offset by (i) the consideration paid to former equity holders in respect of the transfer of equity interests in the subsidiaries under the Reorganisation by approximately RMB31.4 million; and (ii) net cash outflows of RMB9.4 million on disposal of Hubei Mengke. Amongst this, net cash outflows from investing activities incurred by the discontinued operation was RMB3.4 million for the year ended 31 December 2013.

For the year ended 31 December 2012, our net cash used in investing activities amounted to RMB16.5 million and was mainly for (i) the increase in amounts due from Maoming Company, a former equity holder of a subsidiary by RMB31.0 million of temporary fund transfer to finance its capital need; (ii) the purchase of property, plant and equipment and related deposits paid by RMB15.9 million mainly for certain-cutting machines; and (iii) loan to a former equity holder of a subsidiary of RMB30.0 million, partially offset by (i) the deposits received in respect of disposal of our discontinued operation of RMB22.0 million; and (ii) RMB34.3 million in proceeds from disposal of available-for-sale investments relating to some structured deposit investment product we made with the banks. Amongst this, net cash outflows from investing activities incurred by the discontinued operation was RMB14.7 million for the year ended 31 December 2012.

For the year ended 31 December 2011, our net cash used in investing activities amounted to RMB115.1 million and was mainly for (i) increase in amounts due from former equity holders of a subsidiary by approximately RMB62.9 million due to temporary fund transfer; (ii) RMB34.3 million in purchase of available-for-sale investments relating to some structured deposit investment product we made with the banks; and (iii) the purchase of property, plant and equipment by approximately RMB32.5 million mainly for our high-speed press machines, partially offset by the decrease of RMB10.8 million in pledged bank deposits. Amongst this, net cash outflows from investing activities incurred by the discontinued operation was RMB0.6 million for the year ended 31 December 2011.

Cash flow from financing activities

Our cash inflow from financing activities primarily consists of proceeds from borrowings. Our cash outflow for financing activities primarily consists of repayment of principal and interest for bank and other borrowings, dividends paid to equity holders and other finance costs paid.

For the year ended 31 December 2013, our cash used in financing activities amounted to RMB111.6 million, which was mainly for (i) repayments of borrowings of RMB321.5 million; and (ii) interest paid of RMB14.2 million, partially offset by the proceeds from borrowings of RMB232.6 million. Amongst this, net cash outflows from financing activities incurred by the discontinued operation was RMB0.1 million for the year ended 31 December 2013.

For the year ended 31 December 2012, our cash used in financing activities amounted to RMB22.2 million and was mainly for (i) repayments of borrowings of RMB249.5 million; (ii) dividend paid to non-controlling interests of RMB10.4 million; and (iii) interest paid of RMB18.0 million, partially offset by the proceeds from borrowings of RMB264.0 million. Amongst this, net cash outflows from financing activities incurred by the discontinued operation was RMB3.4 million for the year ended 31 December 2012.

For the year ended 31 December 2011, our cash generated from financing activities amounted to RMB30.0 million and was mainly from the proceeds from borrowings of RMB342.0 million, partially offset by (i) repayments of borrowings of RMB281.5 million; (ii) dividend paid to former equity holders of subsidiary of RMB8.7 million; (iii) interest paid of RMB13.9 million; and (iv) other finance cost paid of approximately RMB7.7 million relating to early redemption of note receivables. Amongst this, net cash outflows from financing activities incurred by the discontinued operation was RMB5.5 million for the year ended 31 December 2013.

Net current assets and liabilities

Our current assets primarily consist of inventories, trade and other receivables, amounts due from former equity holders of a subsidiary, pledged bank deposits and bank balances and cash. Our current liabilities primarily consist of trade and other payables, borrowings, amounts due to former equity holders of a subsidiary and amounts due to related parties.

The following table sets forth our current assets and current liabilities as of the years indicated with 31 December 2011 broken out between continuing operations and discontinued operation for comparative purposes. Our discontinued operation was reclassified under the balance sheet line terms "Assets classified as held for sales" and "Liabilities classified as held for sales" in 2012.

	Continuing Operations	Discontinued Operation	As at 31 December			As at 30 April
	2011	**2011**	**2011**	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current assets						
Inventories	67,144	39,067	106,211	60,990	70,539	75,386
Trade and other receivables	108,536	42,221	150,757	196,876	183,927	183,686
Prepaid lease payments	617	150	767	677	580	580
Available-for-sale investments	34,300	—	34,300	—	—	—
Amount due from Mr. Feng	207	—	207	59	—	—
Amounts due from former equity holders of a subsidiary	65,066	—	65,066	94,693	17,258	—
Amount due from a non-controlling equity holder of a subsidiary	—	—	—	164	164	—
Current tax assets	1,209	—	1,209	457	—	—
Pledged bank deposits	80,346	—	80,346	62,097	59,293	55,781
Bank balances and cash	28,933	3,385	32,318	39,509	29,963	36,178
Subtotal	**386,358**	**84,823**	**471,181**	**455,522**	**361,724**	**351,611**
Assets classified as held for sale *(Note)*	—	—	—	164,394	3,909	3,909
Total current assets	**386,358**	**84,823**	**471,181**	**619,916**	**365,633**	**355,520**
Current liabilities						
Trade and other payables	228,316	42,516	270,832	247,423	220,583	184,702
Borrowings	219,000	—	219,000	253,463	94,550	137,000
Amounts due to former equity holders of a subsidiary	—	—	—	—	93,026	5,716
Amounts due to Controlling Shareholder and Mr. Feng	—	—	—	—	31,987	9,121
Current tax liabilities	683	1,415	2,098	2,476	3,733	1,146
Subtotal	**447,999**	**43,931**	**491,930**	**503,362**	**443,879**	**337,685**
Liabilities classified as held for sale relating to discontinued operation	—	—	—	117,823	—	—
Total current liabilities	**447,999**	**43,931**	**491,930**	**621,185**	**443,879**	**337,685**
Net current (liabilities)/assets	(61,641)	40,892	(20,749)	(1,269)	(78,246)	17,835
Net current (liabilities)/assets excluding amounts classified as held for sale and liabilities relating to discontinued operation	(61,641)	—	(20,749)	(47,840)	(78,246)	17,835

Note: The RMB164.4 million assets classified as held for sale as at 31 December 2012 was related to the disposal of our discontinued operation (Hubei Mengke). The RMB3.9 million assets classified as held for sale as at 31 December 2013 and 30 April 2014 was related to the transfer of some land to Hubei Mengke in 2013 which is yet to complete.

Historically, our Group's net current liability position reflected our significant amount of short-term borrowings used to fund property, plant and equipment, which are classified as long-term assets. As at 31 December 2011, 2012 and 2013, excluding current assets and liabilities related to discontinued operation of Hubei Mengke, our Group recorded net current liabilities of RMB61.6 million, RMB47.8 million and RMB78.2 million, respectively. As at 30 April 2014, our Group had a net current asset position of RMB17.8 million.

Excluding current assets and liabilities related to discontinued operation, our net current liabilities decreased by RMB13.8 million from RMB61.6 million as at 31 December 2011 to RMB47.8 million as at 31 December 2012 mainly attributable to (i) the increase in trade and other receivables by RMB88.3 million due to the sales near the year end of 2012; and (ii) the increase of RMB29.6 million in the amounts due from former equity holders of a subsidiary, partially offset by (a) the increase in trade and other payables by RMB19.1 million due to our increased purchase of raw material in 2012; and (b) the increase in short-term borrowings by RMB34.4 million in 2012 due to reclassification from non-current liabilities.

Excluding current assets and liabilities classified as held for sale relating to discontinued operation, our net current liabilities increased by RMB30.4 million from RMB47.8 million as at 31 December 2012 to RMB78.2 million as at 31 December 2013. Such increase was mainly due to a decrease in current assets from our continuing operations resulting primarily from (i) the decrease in amounts due from former equity holders of a subsidiary by RMB77.4 million as a result of repayment of the respective parties; and (ii) amount to due to a former equity holders of a subsidiary of RMB93.0 million being recorded in 2013 and amounts due to Controlling Shareholder and Mr. Feng in aggregate of RMB32.0 million arising from the Reorganisation, partially offset the decrease in bank borrowings by RMB158.9 million due to the maturity of some short-term borrowings.

Compared to the net current liabilities of RMB78.2 million as at 31 December 2013, we had net current assets of RMB17.8 million as at 30 April 2014, mainly attributable to (i) the payment of RMB87.3 million due to former equity holders of a subsidiary using principally advances from a Controlling Shareholder which were capitalised; and (ii) the capitalisation of RMB22.9 million amounts due to a Controlling Shareholder and Mr. Feng, partially offset by an increase of RMB42.5 million in short term bank borrowings mainly due to the reclassification of certain bank borrowings from non-current to current liabilities.

We believe that we maintain sufficient liquidity and expect our liquidity position to improve based on the following considerations:

(i) As at 30 April 2014, our Group had unutilised banking facilities of approximately RMB170.1 million;

(ii) Our Group expects to receive approximately RMB42.3 million net proceeds from the Share Offer, of which approximately RMB3.8 million is reserved for working capital purposes;

(iii) Our Group expects to continue to generate stable positive cash flows from our operating activities which would further support our liquidity position; and

(iv) Our Group is in the process of applying to the relevant bank to extend the one-year term bank borrowings of RMB30.0 million to long term borrowings and expects to receive the bank's approval of such extension in the third quarter of 2014. Our Group plans to continue to procure long term bank facilities to improve our working capital position, and may use borrowings from such facilities to refinance our short term borrowings to the extent it is commercially feasible to do so. Our Group expects to be able to obtain such long term bank facilities based on our Group's credibility and long term relationship with the relevant banks.

CERTAIN BALANCE SHEET ITEMS

Inventory

Our inventories comprise raw materials, work in progress and finished goods. The raw materials include paper, ink and aluminum foil. The value of our inventories accounted for 17.4%, 13.4% and 19.3% of our total current assets for continuing operations as at 31 December 2011, 2012 and 2013, respectively. We typically manage our inventories of raw materials on a weighted average price basis so that cost of each supply is determined based on the weighted average of the cost of similar supplies at the beginning of the period and the cost of similar supplies purchased or produced during the period. In addition, we maintain close relationships, with our customers and our customers usually inform our Group their productions/or order schedules for the upcoming weeks or month, such that our Group is allowed sufficient time to plan our procurement schedules and liaise with our suppliers in advance.

The following table is a summary of our balance of inventories as at the dates indicated:

	Continuing Operations	Discontinued Operation	As at 31 December		
	2011	**2011**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	36,224	29,028	65,252	36,718	38,466
Work in progress	5,647	1,126	6,773	10,347	9,985
Finished goods	25,273	8,913	34,186	13,925	22,088
Total	67,144	39,067	106,211	60,990	70,539

For our Continuing Operations, the inventory balance decreased by 9.1%, from RMB67.1 million as at 31 December 2011 to RMB61.0 million as at 31 December 2012. The decrease in the inventory balance from 2011 to 2012 was mainly due to lower amount of finished goods as at 31 December 2012 as a result of the expedited delivery of finished goods at the end of 2012.

Our inventory balance increased by 15.6%, from RMB61.0 million as at 31 December 2012 to RMB70.5 million as at 31 December 2013. The increase in the inventory balance was mainly as a result of our increased need of raw materials in response to the increasing demand from customer.

The following table sets out our average inventory turnover days for the years indicated:

Continuing Operations	Year ended 31 December 2011	2012	2013
	Day	*Day*	*Day*
Average inventory turnover days*(Note)*	78	75	71

Note: Average inventory turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of inventories balance of our Continuing Operations of the respective year divided by cost of sales of the respective year and multiplied by 365 days

The decrease in the average turnover days from 2011 to 2012 was mainly attributable to the lower amount of inventories as at 31 December 2012 due to the increase in sales near the end of 2012. The average inventory turnover days further decreased from 2012 to 2013 mainly attributable to the increase in sales in 2013 and the improvement of inventory control. We strive to maintain our inventory turnover days at around 70 days.

As at 30 April 2014, around 72.4% of our inventories as at 31 December 2013 were subsequently consumed and sold.

Trade and note receivables

The following table sets forth our trade and notes receivables as at the dates indicated:

	Continuing Operations	Discontinued Operation	Total		
			As at 31 December		
	2011	2011	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	92,828	39,627	132,455	155,637	148,334
Less: allowance for doubtful debts	(236)	(345)	(581)	(138)	(185)
	92,592	39,282	131,874	155,499	148,149
Note receivables	1,100	50	1,150	24,390	1,250
Total trade and note receivables	93,692	39,332	133,024	179,889	149,399

Our trade and note receivables primarily consisted of receivables from the sales of paper cigarette packages and social product paper packages. Our trade and note receivables from Continuing Operations amounted to RMB93.7 million, RMB179.9 million and RMB149.4 million as at 31 December 2011, 2012 and 2013, respectively.

For our Continuing Operations, our trade and note receivables increased from RMB93.7 million as at 31 December 2011 to RMB179.9 million as at 31 December 2012 primarily as the result of (i) the increase in revenue of our paper cigarette packages segment during the second half of 2012 as compared to the same period in 2011; and (ii) less bank acceptance bills were sold to the financial institutions at a discount near the end of 2012 than that in the end of 2011.

Our trade and note receivables decreased from RMB179.9 million as at 31 December 2012 to RMB149.4 million as at 31 December 2013 primarily due to the fact that more bank acceptance bills were sold to the financial institutions at a discount to enhance the cash flow and liquidity.

The following table sets out the aging analysis of our trade receivables of our continuing operations based on the date of delivery of goods, which approximates the respective revenue recognition dates as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
0 to 90 days	80,057	138,258	125,095
91 to 180 days	11,830	13,369	18,507
181 to 360 days	705	845	3,407
Over 360 days	—	3,027	1,140
Total	92,592	155,499	148,149

The following table sets out the aging analysis of our note receivables from our continuing operations based on the date of issuance of notes as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Note receivables			
0 to 90 days	100	9,290	1,100
91 to 180 days	1,000	15,100	150
Total	1,100	24,390	1,250

The credit terms for our paper cigarette packages customers are usually set out in the tender invitation and later reflected in the sales contracts following our customer's standard contract form. The credit period our customers enjoy usually lasts from 30 days to 90 days. Such credit period generally commence upon our customer's confirmation of receiving our invoices. It can take around 30 days from our delivery of goods to our customer's final confirmation of receiving the invoice, taking into consideration the time required for us to prepare the invoices and complete our internal control procedure, the invoice mailing time and the time required for our customers to complete their internal control procedure and issue the final confirmation. Taking into consideration the extra 30 days, our receivable period can be prolonged up to 120 days. For some major customers, our Group accepted settlement of trade receivables by bank acceptance notes primarily with 6-month maturity period which extends the collection period from such customers to 180 days. The lengthening of aging of trade receivables, in particular for the category of "181 days to 360 days" and "Over 360 days" was mainly attributable to the delayed settlement by some customers.

We have adopted a series of policies and procedures to achieve prompt recoveries of our overdue trade receivables, such as stringent credit standards for credit analysis of our customers, and close monitoring of the recoverability of our overdue trade receivables. Note receivables during Track Record Period was mainly due from China Tobacco Chuanyu, China Tobacco Henan and Hubei Mengke, which were approximately RMB1.1 million and RMB16.6 million in aggregate as at 31 December 2011 and 2012 respectively. In general, we settled the note receivables by way of (i) selling the bank acceptance notes to financial institutions at a discount; and (ii) collection at maturity date. The low balances of note receivables as at 31 December 2011 and 2013 was mainly due to more bank acceptance notes were sold to financial institutions at a discount to enhance the cash flow of our Group.

Historically, we have not experienced any significant losses on trade receivables. With reference to the above table, approximately 85.6%, 82.0% and 84.5% of the total trade and note receivables of our Group were within 90 days as at 31 December 2011, 2012 and 2013, respectively.

Our Group pledged our trade receivables (including those of Hubei Mengke) of approximately RMB100.0 million, RMB130.3 million and RMB117.3 million for the year ended 31 December 2011, 2012 and 2013. Pledged trade receivables represented the collateral for our general banking facilities.

The following table sets forth our average trade and note receivables turnover days for the periods indicated:

	For the year ended 31 December		
Continuing Operations	**2011**	**2012**	**2013**
	Days	*Days*	*Days*
Average trade and note receivables turnover days *(Note)*	102	114	121

Note:

1. Average trade and note receivables turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of trade and note receivables balance of our Continuing Operations of the respective year divided by revenue of the respective year and multiplied by 365 days.

Having considered, as mentioned above, the additional 30 days from our delivery of goods to our customers' confirmation of receiving the invoices, the range of average trade and note receivables turnover days for the three years ended 31 December 2013 generally fell inside the credit period within 120 days (for the general credit period up to 90 days plus the extra 30 days for customers' cross-checking) for both the customer of paper cigarette packages and other packages products. With the reference to the above table, the total trade and note receivables turnover days were approximately 102 days, 114 days and 121 days in 2011, 2012 and 2013, respectively. The turnover days in 2013 exceeded 120 days mainly due to the prolonged cross-checking by the customers.

Note receivables during the Track Record Period represented trade receivables settled by means of bank acceptance bills which remained as receivables of our Group after such settlement until certain bills were settled by relevant banks. The increase from approximately 102 days in 2011 to approximately 114 days in 2012 and further increase to approximately 121 days in 2013 was reflected by the fact that (i) the increase in sales across the years; and (ii) the greater amount of sales made to China Tobacco Chuanyu, which was the largest customer of our Group, generally made payments by way of bank acceptance notes. Under this circumstance, the trade and note receivables turnover days of our Group were satisfactory due to the certain receivables were collected earlier than the normal 6-month maturity period of the bank acceptance bills.

Included in our trade receivable balance are debtors with aggregate carrying amount of approximately RMB16.9 million, RMB37.3 million and RMB19.9 million as at 31 December 2011, 2012 and 2013, respectively, which were past due as at the reporting date but for which we have not provided for impairment loss. Based on our historical experience, trade receivables that are past due but not impaired are generally recoverable. Our Directors consider these amounts are in good credit quality.

The following table sets forth the aging analysis of our trade receivables of past due but not impaired as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	12,131	33,607	15,219
91 to 180 days	2,561	2,872	2,889
181 to 360 days	887	694	1,158
Over 360 days	1,366	150	599
	16,945	37,323	19,865

As at 30 April 2014, around 88.9% of our trade and note receivables as at 31 December 2013 had been received.

Other receivables

The following table sets forth our other receivables as at the dates indicated:

	Continuing Operations	**Discontinued Operation**	**As at 31 December**		
	2011	**2011**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables	606	—	606	142	13,823
Payments in advance	1,486	1,104	2,589	637	9,972
Advance to employees	7,673	1,485	9,159	11,942	7,070
Deposit paid for machinery and equipment	3,259	—	3,259	2,513	1,162
Prepaid listing expenses	—	—	—	—	897
Prepayments and deposits paid	1,820	300	2,120	1,753	1,604
	14,844	2,889	17,733	16,987	34,528

Other receivables primarily consist of other receivables, payments in advance to suppliers for purchase of raw materials and machines for repair and maintenance, advance to employees, deposit paid for machinery and equipment, prepaid listing expenses as well as prepayments and deposits paid.

For our Continuing Operations, the amounts of our other receivables were RMB14.8 million, RMB17.0 million and RMB34.5 million as at 31 December 2011, 2012 and 2013, respectively. The increase of RMB2.1 million in our other receivables from 2011 to 2012 was attributable to the increase in advance to employees by RMB4.3 million as petty cash for sales and marketing activities while partially offset by the decrease in payments in advance to our suppliers.

A significant increase of RMB17.5 million in our other receivables from 2012 to 2013 was mainly due to (i) the increase in other receivables by RMB13.4 million in connection with our sales of employee quarter and some facilities to Hubei Mengke in 2013; and (ii) the increase of RMB9.3 million in payments in advance to suppliers mainly due to the RMB8.5 million advance payment to Hubei Mengke who supplied us with some raw materials, partially offset by the decrease in advance to employees by RMB4.9 million. In May 2013, we entered into a sales and purchase agreement with Hubei Mengke to sell, staff quarter, certain facilities and some land to Hubei Mengke at the consideration of RMB17.8 million. The sales of staff quarter and certain facilities were completed before the end of 2013 and the transfer of the underlying land is expected to be completed in the third quarter of 2014.

Trade and other payables

The following table sets forth our trade and other payables as at the dates indicated:

	Continuing Operations	**Discontinued Operation**	**As at 31 December**		
	2011	**2011**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	61,772	35,856	97,628	69,172	74,159
Note payables	126,385	—	126,385	124,184	109,130
Total trade and note payables	188,157	35,856	224,013	193,356	183,289

For our Continuing Operations, our trade and note payables amounted to RMB188.2 million, RMB193.4 million and RMB183.3 million, representing 39.9%, 38.2%, 36.2% of our total liabilities as at 31 December 2011, 2012 and 2013, respectively. The increase in trade and note payables from 31 December 2011 to 31 December 2012 was primarily due to the higher amount of raw material purchases made by our Group. The decrease in trade and note payables from 31 December 2012 to 31 December 2013 was reflected by relatively more cash used to settle the purchases of raw material as compared with previous year, as a result of our intention to maintain strong business relationship with suppliers and to negotiate better pricing for raw materials with respective suppliers going forward. No interest was charged for the bank acceptance notes during the Track Record Period as our Group placed pledged bank deposits as collateral for the issuance of bank acceptance notes respectively. We used bank acceptance notes to settle the purchase of raw materials as the bank acceptance notes usually entitled us to a maturity period of 180 days which is longer than the normal credit period of 60-90 days offered by our suppliers.

The following table sets forth the aging analysis of the trade payables from our continuing operations based on the date of income as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
0 to 90 days	55,001	67,369	67,628
91 to 180 days	3,214	643	4,776
181 to 360 days	823	422	569
Over 360 days	2,734	738	1,186
Total	61,772	69,172	74,159

The following table sets forth the aging analysis of our trade payables based on the date of issuance of notes as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Note payables			
0 to 90 days	35,220	46,685	57,000
91 to 180 days	91,165	77,499	52,130
	126,385	124,184	109,130

The average credit period on purchases of goods ranges from 30 to 90 days. With reference to the above table, approximately 48.0%, 59.0% and 68.0% of the total trade and note payables of our Group were within 90 days as at 31 December 2011, 2012 and 2013, respectively, which fell within the credit periods granted by our suppliers.

As at 31 December 2011, 2012 and 2013, note payables represented bank acceptance notes issued by our Group with maturity within six months, and were secured by a charge over certain of our Group's pledged bank deposits.

The following table sets forth our average trade and note payables turnover days for the periods indicated:

	Year ended 31 December		
	2011	**2012**	**2013**
	Day	*Day*	*Day*
Average trade and note payables turnover days *(Note)*	239	222	204

Note:

1. Average trade and note payables turnover days for each of the years ended 31 December 2011, 2012 and 2013 were calculated as the average of the beginning and ending of trade and note payables balance of our Continuing Operations of the respective year divided by cost of sales of the respective years and multiplied by 365 days

The average trade and notes payables turnover days of our Group was approximately 239 days, 222 days and 204 days as at 31 December 2011 to 2013. Such prolonged payable turnover days was due to the fact that our Group may use bank acceptance notes to settle the purchase of raw materials during the normal credit period from 60 to 90 days granted by suppliers. Because a further maturity period of 180 days can be granted on the acceptance notes by the banks, it can lead to a prolonged payable period up to a maximum of 270 days (being 90 days credit period plus 180 days maturity period granted by the banks on the acceptance notes).

Our average trade and note payables turnover days decreased from approximately 239 days in 2011 to approximately 222 days in 2012 and further decreased to approximately 204 in 2013 mainly because (i) the credit period granted by our suppliers was shortened in consideration for price reductions of the raw material under the tendering system; and (ii) relatively more cash was used to settle the purchases of raw materials compared to previous year, as we intended to maintain strong business relationship with suppliers and to negotiate better pricing for raw material going forward. Under this circumstance, the trade and note payables turnover days of our Group were satisfactory due to the certain payables were settled earlier than the normal 6-month maturity period of the bank acceptance bills.

The management of our Group reviewed trade payables aging report on a monthly basis during the Track Record Period. Before making the payments to settle the trade payables, our Group's management took into account various factors including (i) suppliers' credit terms; (ii) the expected cash outflow to suppliers for settlement; and (iii) the remaining amount of banking facilities available to our Group.

As at 30 April 2014, around 75.4% of the trade and note payables as at 31 December 2013 had been subsequently settled.

Other payables

The following table sets forth our other payables balances as at the dates indicated:

	Continuing Operations	**Discontinued Operation**	**As at 31 December**		
	2011	**2011**	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deposit received in advance in respect of disposal of a subsidiary	—	—	—	22,000	—
Dividends payable	8,620	6,407	15,027	4,735	13,914
Other payables and accruals	31,540	252	31,792	27,332	23,380
Total other payables	40,160	6,659	46,819	54,067	37,294

For our Continuing Operations, the amounts of our other payables were approximately RMB40.2 million, RMB54.1 million and RMB37.3 million as at 31 December 2011, 2012 and 2013, respectively. The increase from RMB40.2 million as at 31 December 2011 to RMB54.1 million as at 31 December 2012 was primarily due to an RMB22.0 million of deposit received in respect of disposal of discontinued operation was recorded in 2012 which was one-off in nature. Our other payables decreased to RMB37.3 million as at 31 December 2013 mainly due to the completion of the disposal of our discontinued operation and no liability for the deposits to be returned, partially offset by the increase in dividends payable in 2013.

As at 31 December 2013, our dividends payable was RMB13.9 million. The amount will be fully settled before the Listing.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that, taking into account the financial resources available to us including internally generated funds, unutilised banking facilities and the estimated net proceeds from the Share Offer, we have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

INDEBTEDNESS

Borrowings

The primary uses of cash by our Group are to satisfy its working capital and capital expenditure needs which have been primarily financed through cash generated from operations and borrowings. Our Directors confirmed that our Group did not experience any difficulty in obtaining financing during the Track Record Period.

Our borrowings during the Track Record Period were primarily due to our expansion and upgrade for our production facilities, expenditure on research and development, and for working capital purposes to enhance our liquidity to settle the balances of our creditors as the credit period was shortened as a result of our tendering system. As at 31 December 2011, 2012 and 2013, our Group had outstanding borrowings of RMB239.0 million, RMB253.5 million and RMB154.6 million, respectively.

As at 30 April 2014, the date being the latest practicable date for the purpose of this indebtedness statement, we had total borrowings of RMB167.0 million, which comprised RMB30.0 million of non-current, secured bank borrowings and RMB137.0 million of current, secured bank borrowings. As at 30 April 2014, we had unutilised unrestricted banking facilities in a total amount of RMB170.1 million.

Our secured bank borrowings were secured by prepaid lease payments, property, plant and equipment, inventories, trade receivables and pledged bank deposits.

The following table sets forth our borrowings as at the dates indicated:

	As at 31 December			As at 30 April
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	209,000	223,463	127,000	167,000
Unsecured bank loans	10,000	30,000	27,550	—
Unsecured other loans	20,000	—	—	—
Total	239,000	253,463	154,550	167,000

Pledge of assets

The following table sets forth the carrying amounts of assets pledged (including those assets of Hubei Mengke) to secure our Group's general banking facilities (including note payables and borrowings) as at the dates indicated:

	As at 31 December			As at 30 April
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepaid lease payments	23,573	29,223	18,572	18,410
Property, plant and equipment	180,694	183,511	145,394	139,553
Inventories	72,500	72,500	—	—
Trade receivables	100,000	130,352	117,310	105,822
Pledged bank deposits	80,346	76,542	59,293	55,781
Total	457,113	492,128	340,569	319,566

As at 31 December 2011, 2012 and 2013 and as at 30 April 2014, the aggregate corporate guarantees provided by our subsidiaries in respect of the banking facilities granted within our Group were approximately RMB244,293,000, RMB248,187,000, RMB187,065,000 and RMB189,958,000.

For further information on our borrowings, please see Note 24 to the Accountant's Report in Appendix I to this prospectus.

During the Track Record Period and as of the Latest Practicable Date, the majority of our Group's bank borrowings were incurred by the operating subsidiaries within the PRC from PRC commercial banks and followed these PRC commercial banks' standard bank loan terms. Our Directors believe that there are no material covenants in our Group's bank and other borrowings that impose a substantial limitation on our Group's ability to obtain further financing. Our Directors confirm that our Group had no material default in the payment of bank and other borrowings during the Track Record Period and up to the Latest Practicable Date.

Our Directors confirm that, as of 30 April 2014, being the latest practicable date for the purpose of determining indebtedness, save as disclosed under the paragraphs headed "Indebtedness", "Related Parties Transactions" and "Off-balance Sheet Arrangements and Contingent Liabilities" in this section, we did not have any other borrowings, debt securities, indebtedness, mortgages, charges, contingent liabilities or guarantees. Our Directors also confirm that, since 30 April 2014, there has been no material adverse change in our indebtedness.

RELATED PARTIES TRANSACTIONS

Amounts due from related parties

The following table sets forth the outstanding balances of the amounts due from and trade receivables from our related parties as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Amount due from Mr. Feng	207	59	—
Amounts due from former equity holders of a subsidiary			
— Medicon	—	1,393	—
— Maoming Company	24,225	60,626	9,648
— Shenzhen Company	40,841	32,674	7,610
Total	65,066	94,693	17,258
Amount due from a non-controlling shareholder Hubei Three Gorges	—	164	164
Trade receivable from companies controlled by a former director of a subsidiary	4,440	—	—

The amounts due from Mr. Feng, former equity holders of a subsidiary and a non-controlling shareholder arose from temporary fund transfers, which was non-trade in nature. Included in our Group's amounts due from former equity holders of a subsidiary was a loan of approximately RMB30,000,000. The loan was unsecured, interest-bearing at 7.5% per annum and fully settled during the year ended 31

December 2013. The amounts due from former equity holders of a subsidiary and the amount due from a non-controlling shareholder was unsecured, interest-free at the end of each of the relevant periods and had been fully settled as of the date of this prospectus. The amount due from Mr. Feng was unsecured, interest-free and had no fixed term of repayment at the end of each of the relevant periods.

The trade receivables from companies controlled by a former director of a subsidiary were trade related, unsecured and interest-free.

All amounts due from related parties was fully settled prior to the Listing. The total amount of RMB164,000 due from a non-controlling shareholder, namely Hubei Three Gorges as at 31 December 2013, was fully settled in February 2014 by offsetting the dividends payable to Hubei Three Gorges. The total amount of RMB17,258,000 due from former equity holders of a subsidiary, namely Maoming Company and Shenzhen Company as at 31 December 2013, had been fully settled in cash in March 2014.

Amounts due to related parties

The following table sets forth the outstanding balances of the amounts due to and trade and other payables to our related parties as at the dates indicated:

	As at 31 December		
	2011	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*
Amounts due to former equity holders of a subsidiary			
Medicon	—	—	64,923
Maoming Company	—	—	12,022
Shenzhen Company	—	—	16,027
Yichang Company	—	—	54
Total	—	—	93,026
Amounts due to a Controlling Shareholder and Mr. Feng			
Mr. Yang	—	—	23,835
Mr. Feng	—	—	8,152
Total	—	—	31,987
Trade and other payables to companies controlled by a former director of a subsidiary	1	1,309	—

As at 31 December 2013, except for the amounts due to Medicon and Yichang Company of approximately RMB5.7 million and RMB54.0 thousand respectively, which was cash advances in nature, the other amounts due to former equity holders of a subsidiary with an aggregate carrying amount of RMB87,256,000 represented the unsettled consideration payables to the former equity holders in respect of the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong by Easy Creator under the Reorganisation. These amounts were unsecured, interest-free and had no fixed term of repayment.

As at 31 December 2013, the amounts due to a Controlling Shareholder and Mr. Feng represented the borrowings granted by Mr. Yang and Mr. Feng to Easy Creator for financing the partial settlement of the consideration payables to former equity holders of a subsidiary in respect of the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong by Easy Creator under the Reorganisation. These amounts were unsecured, interest-free and had no fixed term of repayment.

Our trade and other payables to companies controlled by a former director of a subsidiary were trade in nature, unsecured and interest-free.

For further details regarding our transactions with related parties, please see Notes 18, 19, 22, 23 and 30 of the Accountants' Report in Appendix I to this prospectus.

As at 31 December 2013, the amount due to former equity holders of a subsidiary (Hubei Golden Three Gorges), namely Medicon, Maoming Company, Shenzhen Company and Yichang Company, amounted to an aggregate of RMB93.0 million, of which (i) RMB87.3 million had been settled using shareholder loan from Mr. Yang of RMB86.7 million and cash on hand; and (ii) RMB5.7 million due to Medicon borrowed to cover our listing expenses will be repaid using the gross proceeds received upon Listing. The shareholder loans of RMB86.7 million from Mr. Yang, together with the RMB23.8 million due to Mr. Yang as at 31 December 2013, were capitalised in April 2014 as part of the Reorganisation. As at 31 December 2013, the amount due to Mr. Feng was RMB8.2 million which was capitalised in April 2014 as part of the Reorganisation.

From January to April 2014, our Group received an aggregate of RMB9.1 million shareholder loan from Mr. Yang to cover our listing expenses of RMB8.4 million and operating expenses incurred by Hong Kong subsidiaries of RMB0.7 million. The RMB8.4 million will be repaid to Mr. Yang using the gross proceeds received upon Listing and the RMB0.7 million will be repaid to Mr. Yang using the net proceeds from the Share Offer. In addition, our Group expects to receive an additional RMB5.2 million from Mr. Yang from May 2014 to the time before Listing to cover our listing expenses and our Group will repay such amount to Mr. Yang using the gross proceeds received upon Listing. These loans from Mr. Yang are unsecured, interest-free and have no fixed term of repayment.

COMMITMENTS

The following table sets out our operating lease commitments as at the dates indicated.

Operating leases — the Group as lessee

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Minimum lease payments paid under operating leases			
— Warehouse	455	—	—
— Staff quarter	—	—	655

All of our operating lease commitments are payable within one year of the dates indicated above.

Capital commitment

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the Financial Information	106	1,200	151

CAPITAL EXPENDITURES

During the Track Record Period our capital expenditures consisted primarily of expenditures on buildings, plant and machinery, furniture, fixtures and equipment, motor vehicles and construction in progress.

The following table sets forth our historical capital expenditures for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	*RMB'000*	*RMB'000*
Buildings	63	—	296
Plant and machinery	31,173	10,432	8,336
Furniture, fixtures and equipment	650	641	408
Motor vehicles	916	1,518	—
Construction in progress	3,980	5,913	2,728
Total	36,782	18,504	11,768

During the Track Record Period, most of our capital expenditures were on (i) plant and machinery which mainly included our completed factories and plants and manufacturing equipment and machines; and (ii) construction in progress which mainly included our factories and plants under construction and manufacturing equipment and machines to be installed or during installation process.

In relation to our future capital expenditures, we plan to spend approximately RMB14.0 million on renewal and upgrade of existing equipment, approximately RMB9.6 million on procurement and installation of new equipment and machinery and approximately RMB9.1 million to develop phase II of our Yichang production base.

Our Directors confirm that, the capital requirement for the future operation plans will be financed by the net proceeds from Share Offer and cash generated from our operations. Approximately HK$41.3 million (approximately RMB32.6 million) from the proceeds of the Share Offer will be used for our Group's capital expenditure. Please see the section headed "Future Plans and Use of Proceeds" in this prospectus for further details.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENT LIABILITIES

During the Track Record Period and as of the Latest Practicable Date, we have not entered any off-balance sheet arrangements.

Save as disclosed herein, and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital issued or agreed to be issued, bank overdrafts, loans and advances, debt securities borrowing or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the Latest Practicable Date.

Our Directors have confirmed that there has been no material adverse change in our indebtedness and contingent liabilities since the Latest Practicable Date.

DISTRIBUTABLE RESERVES

As our Company was not incorporated in the Cayman Islands until 5 August 2013, as at 31 December 2013, our Company had no reserves available for distribution to our Shareholders.

DIVIDEND POLICY

For the three years ended 31 December 2011, 2012 and 2013, our subsidiaries declared to their then shareholders dividends of approximately RMB23.6 million, RMB37.9 million and RMB81.2 million respectively.

We do not have a fixed dividend policy. The form, frequency and amount of future dividends on the Shares will be at the discretion of the Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group as set forth in the section headed "Risk Factors" in this prospectus and the cautionary notice regarding forward-looking statements contained in the section headed "Forward-looking Statements" in this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Pursuant to Rule 13.18 of the Listing Rules, a general disclosure obligation will arise where an issuer or any of its subsidiaries enters into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholders, such as requirement to maintain a specified minimum holding in the share capital of the issuer.

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Market risks are risks in relation to fluctuation of the fair value or future cash flows of a financial instrument due to changes in economic environment. Major categories of market risks include credit risk, liquidity risk, interest rate risk and currency risk. Please see the section headed "Business — Risk Management" for a discussion on how we manage such risks.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since 31 December 2013 (being the date of our latest audited combined statements of financial results, as set out in the Accountant's Report in Appendix I to this prospectus) and up to the date of this prospectus.

Our Directors have prepared the combined statement of financial position of our Group as at 30 April 2014, and the related combined statements of profit or loss and other comprehensive income for the four months period ended 30 April 2014 (the "**Subsequent Interim Financial Information**"). For the four months ended 30 April 2014, our Group had revenue amounting to RMB128.6 million and gross profit amounting to RMB36.7 million, representing a gross profit margin of 28.5%. For the four months ended 30 April 2014, our sales volume and average selling price of the paper cigarette packages was 64,641 ten thousand pieces and RMB1,885.1 per ten thousand pieces, respectively. For the four months ended 30 April 2013, our Group had revenue amounting to RMB125.8 million and gross profit amounting to RMB39.1 million, representing a gross profit margin of 31.1%. For the four months ended 30 April 2013, our sales volume of the paper cigarette packages was 62,811 ten thousand pieces and the average selling price was RMB1,895.1 per ten thousand pieces. The slight decrease in gross profit margin for the four months ended 30 April 2014, compared to that of the corresponding period in 2013, was mainly because of the product mix changes in our paper cigarette packages sold during the first four months of 2014. Our Reporting Accountants, HLB Hodgson Impey Cheng Limited, have conducted a review on the Subsequent Interim Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The following events took place or are expected to take place subsequent to 31 December 2013:

(a) On 30 May 2013, our Group entered into a number of sale and purchase agreements with Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase and our Group agreed to dispose of its certain property, plant and equipment and prepaid lease payments. The disposal of the property, plant and equipment was completed during the year ended 2013 and the disposal of the prepaid lease payments is expected to be completed in the second half of 2014;

(b) On 30 April 2014, the companies comprising our Group underwent and completed the Reorganisation in preparation for listing of the Company's shares on Main Board of The Stock Exchange of Hong Kong Limited. Further details of the Reorganisation are set out in the section headed "History, Reorganisation and Group Structure" in this prospectus;

(c) Our Group received cash advances from our Controlling Shareholder, Mr. Yang an aggregate of RMB86.7 million in March and April 2014 to settle the amounts due to certain related parties relating to the consideration payable in the Reorganisation, and these advances were capitalised in April 2014;

(d) In February 2014, our Group settled the entire amount of RMB164.0 thousand due from a non-controlling shareholder, namely Hubei Three Gorges as at 31 December 2013 by offsetting the dividends payable to Hubei Three Gorges. In March 2014, our Group received in cash the entire amount of RMB17.3 million due from former equity holders of a subsidiary, namely Maoming Company and Shenzhen Company as at 31 December 2013;

(e) In March 2014, our Group settled the amount of RMB12.0 million due to Maoming Company and the amount of RMB16.0 million due to Shenzhen Company. In April 2014, our Group settled the amount of RMB54.0 thousand due to Yichang Company and the amount of RMB59.3 million due to Medicon;

(f) Our Group will settle the remaining amount of RMB5.7 million due to Medicon related to the listing expenses using the gross proceeds received upon Listing;

(g) From January to April 2014, our Group received an aggregate of RMB9.1 million shareholder loan from Mr. Yang to cover our listing expenses of RMB8.4 million and operating expenses incurred by Hong Kong subsidiaries of RMB0.7 million. The RMB8.4 million will be repaid to Mr. Yang using the gross proceeds received upon Listing and the RMB0.7 million will be repaid to Mr. Yang using the net proceeds from the Share Offer; and

(h) Our Group expects to receive an additional RMB5.2 million from Mr. Yang from May 2014 to the time before Listing to cover our listing expenses and will repay such amount to Mr. Yang using the gross proceeds received upon Listing.

PROPERTY INTERESTS

For details of our Group's properties as at 30 April 2014 and the text of the valuation certificates of these property interests prepared by Castores Magi (Hong Kong) Limited, please refer to Appendix III of this prospectus.

The statement below shows the reconciliation of the aggregate amounts of properties as reflected in the combined financial information as at 31 December 2013 as set out in Appendix I to this prospectus with the valuation of these properties as at 30 April 2014 as set out in Appendix III to this prospectus.

	RMB'000
Carrying amounts of the following properties as at 31 December 2013:	
— Buildings included in property, plant and equipment	39,183
— Land included in prepaid leases payments under non-current portion	22,339
— Land included in prepaid leases payments under current portion	580
Less: Movements for the four months ended 30 April 2014 — Additions	522
— Amortisation	(193)
— Depreciation	(590)
Carrying amounts of the properties as at 30 April 2014	61,841
Revaluation surplus	13,069
Capital values of the properties interests as of 30 April 2014	74,910
Representing:	
— Total capital values of land and buildings held by Hubei Golden Three Gorges as of 30 April 2014 as shown on page III-12 of Appendix III to this prospectus	55,830
— Total capital values of land and buildings held by Dangyang Liantong as of 30 April 2014 as shown on page III-15 of Appendix III to this prospectus	19,080

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributed to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Share Offer on combined net tangible assets as at 31 December 2013 as if it had taken place on 31 December 2013. The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 or any future date following the Share Offer. It is prepared based on the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2013 as set out in the Accountants' Report contained in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013(1)	Estimated net proceeds from the Share Offer(2)	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$(4)*
Based on an Offer Price of HK$1.46 per Offer Share	33,450	62,401	95,851	0.32	0.40
Based on an Offer Price of HK$1.00 per Offer Share	33,450	35,853	69,303	0.23	0.29

Notes:

(1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer are based on 75,000,000 Shares to be issued under the Share Offer and the Offer Price of HK$1.46 per Offer Share and HK$1.00 per Offer Share, being the higher end and lower end of the stated Offer Price range, after deduction of the underwriting fees and other related expenses (excluding approximately RMB6.7 million listing-related expenses which have been accounted for prior to 31 December 2013) payable by the Company in connection with the Share Offer. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at the rate of HK$1.00 to RMB0.7933. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is calculated based on 75,000,000 Shares expected to be in issue immediately following the completion of the Share Offer. It does not take into account of any Shares that may be allotted and issued upon the exercise of any options that have been granted or may be granted under the Share Option Scheme, or any Shares that may be issued or repurchase pursuant to the Company's general mandate.

(4) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of HK$1.00 to RMB0.7933. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to the audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2013.

PUBLIC OFFER UNDERWRITERS

First Shanghai Securities Limited
19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

RaffAello Securities (HK) Limited
Room 2002, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

Yue Xiu Securities Company Limited
24/F, Siu On Centre
188 Lockhart Road
Wanchai, Hong Kong

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

The Public Offer Underwriting Agreement was entered into on 16 June 2014 among our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners and the abovementioned Public Offer Underwriters. Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares under the Public Offer at the Offer Price for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, amongst other matters, (i) the Listing Committee granting the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus; and (ii) certain other conditions set out in the Public Offer Underwriting Agreement (including our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price and the Placing Underwriting Agreement becoming unconditional and not having been terminated), the Public Offer Underwriters have severally agreed to subscribe for or procure subscribers to subscribe for the Public Offer Shares, subject to the terms and conditions of the Public Offer Underwriting Agreement.

Grounds for Termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination by notice in writing issued by the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) to our Company, which may be given at the sole and absolute discretion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date upon the occurrence of any of the following events:

(a) there shall develop, occur, exist or come into effect:

(i) any event, or series of events, in the nature of force majeure beyond the reasonable control of the Public Offer Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, earthquake, nuclear leakage, volcanic eruption, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza (H5N1), swine influenza (H1N1) or such related/mutated forms) or interruption or delay in transportation); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in or representing any change or development or a prospective change or development, in local, regional, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in any stock or bond markets, money and foreign exchange markets and inter-bank markets, in or affecting Hong Kong, the PRC, Cayman Islands, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or any other jurisdictions relevant to any member of the Group (the "**Relevant Jurisdictions**"), or a material fluctuation in the exchange rate or development of the Hong Kong dollar or Renminbi against any foreign currencies); or

(iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any governmental authority (the "**Laws**") or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(iv) any moratorium, restrictions, suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or Tokyo Stock Exchange, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or government authority, or if disruption has occurred in monetary, trading, securities settlement or clearance services or procedures in any of the Relevant Jurisdictions; or

(v) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by relevant authorities or a material disruption in commercial banking services in any of the Relevant Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or

(vii) any change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investments Laws in any of the Relevant Jurisdictions; or

(viii) any change or development involving a prospective change in, or a materialization of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(ix) any litigation or claim being threatened or instigated against any member of our Group or any contravention of any applicable Law or any provision of Listing Rules by any member of our Group; or

(x) any of our Directors being charged with an indictable offence or prohibited by the operation of Law or otherwise disqualified from being a director of our Company; or

(xi) the chairman or chief executive officer of our Company vacating his office; or

(xii) the commencement by any governmental, regulatory or political body or organization of any public action against a Director in his capacity as such, or an announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or

(xiii) a government or regulatory prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Share Offer; or

(xiv) non-compliance of this prospectus (and/or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the Listing Rules or any other applicable Laws; or

(xv) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity is made; or

(xvi) a petition or an order is presented for the winding-up or liquidation of our Company or any member of our Group, or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into any scheme of arrangement or any resolution is passed for the winding-up or liquidation of our Company or any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group, which in each case or in the aggregate in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters):

(1) is or will or is likely to have a material adverse effect in, or affecting, the assets, business, results of operations, prospects, position or condition, financial or otherwise of our Company or our Group taken as a whole; or

(2) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of Public Offer Shares being applied for or accepted or the distribution of the Public Offer Shares; or

(3) makes or will make or is likely to make it impracticable, inadvisable or inexpedient for the Share Offer to proceed or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus and other offer documents to be made; or

(4) has or will have or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance or implementation as envisaged.

(b) there comes to the notice of the Joint Bookrunners that:

(i) any statement contained in this prospectus, the Application Forms, the formal notice of our Company, any notices, announcements or other offer documents issued, given or used in connection with the Share Offer (including any amendment or supplement thereto) was when it was issued, has or may become untrue, incorrect or misleading in any material respect, including where any forecasts, estimates, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice of our Company and any notices, announcements or other offer documents issued, given or used in connection with the Share Offer (including any amendment or supplement thereto) is not, in the sole and absolute opinion of the Joint Bookrunners, fair and honest in any material respect and based on reasonable assumptions, when taken as a whole; or

(ii) any event, act or omission which gives or is likely to show that any of the warranties given by our Company, our executive Directors or our Controlling Shareholders under the Public Offer Underwriting Agreement is untrue, inaccurate or misleading in any respect or which gives or is likely to give rise to any material liability of our Company, our executive Directors or our Controlling Shareholders under the Public Offer Underwriting Agreement; or

(iii) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement (in each case, other than the Sole Sponsor, the Joint Bookrunners or any of the Public Offer Underwriters); or

(iv) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitutes a material omission of this prospectus; or

(v) any change or development, or prospective change or development, in the conditions, assets, liabilities, business affairs, prospects, profits, losses or the financial or trading position or performance of our Company or any member of our Group, which would have a material adverse impact on our Company or our Group as a whole; or

(vi) our Company withdraws any of this prospectus or the Application Forms or the Share Offer; or

(vii) any person (other than the Sole Sponsor, the Joint Bookrunners or any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus or the Application Forms or to the issue of this prospectus or the Application Forms; or

(viii) approval by the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued (including any Shares that may be issued under the Share Option Scheme) under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld.

UNDERTAKINGS

Undertakings by our Company to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain prescribed circumstances prescribed under Rule 10.08 of the Listing Rules which includes the issue of Shares pursuant to the Share Option Scheme.

Undertakings by our Controlling Shareholders to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders (namely, Mr. Yang and Spearhead Leader) has undertaken to each of the Stock Exchange and our Company that, save as permitted under the Listing Rules:

(a) in the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is six months from the Listing Date, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and

(b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note (3) of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to each of the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he shall:

(a) when it/he pledges/charges any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge/charge together with the number of Shares so pledged/charged; and

(b) when it/he receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Our Company shall inform the Stock Exchange as soon as it has been informed of matters referred to above by our Controlling Shareholder(s) and disclose such matters by way of an announcement as soon as possible.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertaking by our Company

Pursuant to the Public Offer Underwriting Agreement, we have undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) that, except pursuant to the Share Offer, the Capitalisation Issue, the grant or exercise of options which may be granted under the Share Option Scheme, during the period commencing from the date of the Public Offer Underwriting Agreement and ending on, and including the date that is six months from the Listing Date (the "**First Six-Month Period**"), not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or capital of such other member of our Group, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction set out in paragraphs (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction set out in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions set out in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or shares, capital or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period), provided that the above undertaking shall not prevent any member of our Group from issuing, allotting, accepting subscription for, offering to allot or issue, agreeing to allot or issue or granting any option, warrant, contract or right to subscribe for, allot or issue any shares or capital or increasing its registered capital following which the percentage interest of our Company (directly or indirectly) in such member of our Group will not be less than that before such transaction.

In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the "**Second Six-Month Period**"), our Company enters into any of the transactions set out in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Our executive Directors and our Controlling Shareholders have undertaken to the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) to procure our Company to comply with the above undertakings.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders undertakes to each of our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) that, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) he/it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or deposit any Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein in (including, without limitation, any debt capital or securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(b) he/it will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/it will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of our Company; and

(c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company,

provided that the above undertaking shall not prevent our Controlling Shareholders (i) from purchasing additional Shares, and disposing of such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float; or (ii) from using the Shares beneficially owned by any of them as security (including a charge or a pledge) in favour of an authorized institution for a bona fide commercial loan, subject to compliance with the requirements of Rule 10.07 of the Listing Rules.

Each of our Company, our executive Directors and our Controlling Shareholders has agreed to jointly and severally indemnify, amongst others, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters for certain losses which they may suffer, including losses arising from or in connection with their proper performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company, our executive Directors and our Controlling Shareholders of any provision in the Public Offer Underwriting Agreement.

PLACING

Placing Underwriting Agreement

In connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Joint Bookrunners and the Placing Underwriter(s) on or around the Price Determination Date. Under the Placing Underwriting Agreement, the Placing Underwriter(s) would, subject to certain conditions set out therein, severally agree to purchase the Placing Shares or procure purchasers for the Placing Shares. The Placing Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Public Offer Underwriting Agreement. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Directors and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed "Underwriting Arrangements and Expenses — Undertaking — Undertakings pursuant to the Public Offer Underwriting Agreement" in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriter(s) not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by them in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed "Underwriting Arrangements and Expenses — Undertakings — Undertakings Pursuant to the Public Offer Underwriting Agreement" in this section.

UNDERWRITING COMMISSION AND EXPENSES

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer. The Placing Underwriter(s) are expected to receive similar underwriting commission on the aggregate Offer Price payable for the Placing Shares subject to the terms and conditions of the Placing Underwriting Agreement.

The Sole Sponsor also received a sponsor fee of HK$7.0 million from our Company for acting as the sole sponsor in the Share Offer.

Based on the Offer Price of HK$1.23 per Offer Share (being the mid-point of the indicative Offer Price range between HK$1.00 and HK$1.46), such underwriting commissions, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer which are estimated to be approximately HK$38.8 million in aggregate, are payable by the Company.

UNDERWRITERS INTERESTS IN OUR COMPANY

The Joint Bookrunners and the other Underwriters will receive underwriting commissions pursuant to the Underwriting Agreements. Particulars of the said underwriting commissions and expenses relating to the Share Offer are set forth in the paragraph headed "Underwriting Arrangements and Expenses —

Underwriting Commission and Expenses" in this section. Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Save as disclosed in this prospectus and other than pursuant to the Share Offer and the Underwriting Agreements, none of the Joint Bookrunners and the other Underwriters is, or is expected to be, interested legally or beneficially in the Shares or shares and other securities of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for any Shares or purchase shares and other securities in any member of our Group nor any interest in the Share Offer.

SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Bookrunners will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules immediately after completion of the Share Offer.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or before the Price Determination Date, when market demand for the Share Offer will be determined. The Price Determination Date is expected to be on or around 20 June 2014 but in any event, no later than 23 June 2014. **If, for any reason, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) are unable to reach an agreement on the Offer Price on or before such date, the Share Offer will not proceed and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$1.46 per Share and is currently expected to be not less than HK$1.00 per Share. If, based on the level of interest expressed by prospective investors during the book-building process, the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and with the consent of our Company and the Sole Sponsor (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range as stated in this prospectus), the number of Offer Shares and/or the indicative Offer Price range may be reduced below that as stated in this prospectus at any time not later than the morning of the day which is the last day for lodging applications under the Public Offer.

In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.jiayaoholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk** notice of such reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed among the Joint Bookrunners (for themselves and on behalf of the other Underwriters), the Sole Sponsor and our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" in this prospectus, the use of proceeds from the Share Offer as set out in the section headed "Future plans and use of proceeds" in this prospectus and any other financial information which may change as a result of such reduction.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.jiayaoholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk** of a reduction in the number of Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed among the Joint Bookrunners (for themselves and on behalf of the other Underwriters), the Sole Sponsor and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

Our Company expects to announce the final Offer Price, the level of indication of interests under the Placing, the basis of allotment of the Public Offer Shares and results of application under the Public Offer on or before 26 June 2014 on our Company's website at **www.jiayaoholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Public Offer Shares successfully applied for will be made available as described under the section headed "How to Apply for the Public Offer Shares" in this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.46 per Offer Share and is expected to be not less than HK$1.00 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Public Offer as set out above. You must pay the maximum Offer Price of HK$1.46 per Offer Share plus a brokerage fee of 1%, a SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%, amounting to a total of HK$2,949.44 per a board lot of 2,000 Offer Shares. The Application Forms have tables showing the exact amount payable for multiple board lots of Offer Shares.

If the Offer Price, as finally determined in the manner as set out above, is lower than the maximum Offer Price of HK$1.46 per Share, appropriate refund payments (including the related brokerage fee, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details in this regard are set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon:

(i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued under the Share Offer and the Capitalisation Issue and any Shares which may fall to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange);

(ii) the Price Determination Agreement being entered into between our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or about the Price Determination Date;

(iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated, on or before 8:00 a.m. on the Listing Date. Details of the Underwriting Agreements and its conditions and grounds for termination are set out in the section headed "Underwriting" in this prospectus.

If the above conditions are not fulfilled or waived prior to the times specified, the Share Offer will lapse. Notice of the lapse of the Share Offer will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.jiayaoholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk** on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus. In the meantime, your money will be held in one or more separate bank accounts with the receiving banker or other bank or banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the laws of Hong Kong).

Share certificates will only become valid at 8:00 a.m. on the Listing Date, provided that the Share Offer has become unconditional and right of termination described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Public Offer Underwriting Agreement — Grounds for Termination" in this prospectus has not been exercised.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into the CCASS.

OFFER MECHANISM

This prospectus is published in connection with the Share Offer, which comprises the Placing and the Public Offer. Initially, 67,500,000 Shares (subject to re-allocation as mentioned below), representing 90% of the Offer Shares available under the Share Offer, are to be offered pursuant to the Placing to professional, institutional and other investors, and initially 7,500,000 Shares (subject to re-allocation as mentioned below), representing 10% of the Offer Shares available under the Share Offer, are to be offered to the public in Hong Kong under the Public Offer. References to applications, Application Forms, application monies or to the procedure for application in this prospectus relate solely to the Public Offer. The Offer Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement which include, among others, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price. Information relating to the underwriting arrangements in respect of the Share Offer is set out in the section headed "Underwriting — Underwriting Arrangements and Expenses" in this prospectus. The Share Offer is sponsored by the Sole Sponsor and managed by the Joint Bookrunners.

Investors may apply for Public Offer Shares under the Public Offer or indicate an interest for Placing Shares under the Placing, but may not do both. Investors who have not received Shares in the Public Offer tranche may receive Shares in the Placing tranche.

PLACING

Our Company is initially offering, subject to possible reallocation on the basis discussed below, 67,500,000 new Shares, representing 90% of the total number of Shares being offered under the Share Offer, for subscription by way of the Placing.

Under the Placing, the Placing Underwriters, on behalf of our Company, will conditionally place the Placing Shares with professional, institutional and other investors at the Offer Price. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole. Investors allocated with the Placing Shares cannot apply for the Public Offer Shares under the Public Offer.

The Placing is subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" above. If the Public Offer is not fully subscribed for, the Joint Bookrunners may reallocate all or any unsubscribed Shares originally included in the Public Offer to the Placing. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of any reallocation of unsubscribed Shares originally included in the Public Offer as described in the paragraph headed "Reallocation of the Offer Shares between the Public Offer and the Placing" in this section.

PUBLIC OFFER

Our Company is initially offering 7,500,000 Shares at the Offer Price under the Public Offer, representing 10% of the total number of Shares being offered under the Share Offer for subscription in Hong Kong, subject to reallocation as mentioned in the paragraph headed "Reallocation of the Offer Shares between the Public Offer and the Placing" in this section. The Public Offer is managed by the Joint Bookrunners and is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement which include, among others, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Applicants for the Public Offer Shares under the Public Offer may not apply for Placing Shares under the Placing. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he/she/it has not taken up and will not indicate an interest to take up any Placing Shares. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or untrue (as the case may be), such applicant's application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated in the paragraph headed "Conditions of the Share Offer" in this section.

For allocation purposes only, the number of the Public Offer Shares will be divided equally into two pools: pool A and pool B. The Public Offer Shares in pool A will consist of 3,750,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares in the value of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) or less. The Public Offer Shares available in pool B will consist of 3,750,000 Shares and will be allocated on an equitable basis to applicants who have applied for Public Offer Shares in the value of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the total initial value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 3,750,000 Shares, being 100% of the Public Offer Shares initially available under pool A or pool B will be rejected. Multiple applications or suspected multiple applications within either pool and between pools will also be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. Where there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares. If the Public Offer is not fully subscribed for, the Joint Bookrunners may reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing as described in the paragraph headed "Reallocation of the Offer Shares between the Public Offer and the Placing" in this section.

REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation under the Listing Rules in accordance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 to the Listing Rules as follows:

(a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the total number of Shares available for subscription under the Public Offer will be increased to 22,500,000 Shares, representing 30% of the Offer Shares;

(b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the number of Shares available for subscription under the Public Offer will be increased to 30,000,000 Shares, representing 40% of the Offer Shares; and

(c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the number of Shares available for subscription under the Public Offer will be increased to 37,500,000 Shares, representing 50% of the Offer Shares.

In each case, the additional Offer Shares reallocated to Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners shall have the discretion to reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

If the Public Offer is not fully subscribed, the Joint Bookrunners will have the discretion to reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Joint Bookrunners will have the discretion to reallocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer in such number as it deems appropriate should there be sufficient demand under the Public Offer to take up such unsubscribed Placing Shares.

DEALING ARRANGEMENTS

Assuming that the Share Offer becomes unconditional, it is expected that dealings in the Shares on the Main Board will commence at 9:00 a.m. (Hong Kong time) on 27 June 2014. The Shares will be traded in board lots of 2,000 Shares each.

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Lead Managers and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company, the Sole Sponsor and/or the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;

- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on 17 June 2014 to 12:00 noon on 20 June 2014 from:

(i) any of the following offices of the Public Offer Underwriters:

First Shanghai Securities Limited	19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong
RaffAello Securities (HK) Limited	Room 2002, 20/F Tower Two, Lippo Centre 89 Queensway Hong Kong
Yue Xiu Securities Company Limited	24/F, Siu On Centre 188 Lockhart Road Wanchai Hong Kong

(ii) any of the following branches of Bank of Communications Co., Ltd. Hong Kong Branch:

	Branch Name	Address
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
	Hennessy Road Sub-Branch	G/F., Bank of Communications Building, 368 Hennessy Road
Kowloon	Mongkok Sub-Branch	Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
	Kwun Tong Sub-Branch	Shop A, G/F., Hong Ning Court, 55 Hong Ning Road, Kwun Tong
	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
New Territories	Tsuen Wan Sub-Branch	G/F., Shop G9B–G11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan
	Tuen Mun Sub-Branch	G/F, Lin Won Building, 2–4 Yan Ching Street, Tuen Mun
	Yuen Long Sub-Branch	Shop 2B, G/F, Man Yu Building, 2–14 Tai Fung Street, Yuen Long
	Ma On Shan Sub-Branch	Shop No. 3062, Level 3, Sunshine City Plaza, Ma On Shan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on 17 June 2014 until 12:00 noon on 20 June 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — Jia Yao Holdings Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 17 June 2014	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 18 June 2014	**—**	**9:00 a.m. to 5:00 p.m.**
Thursday, 19 June 2014	**—**	**9:00 a.m. to 5:00 p.m.**
Friday, 20 June 2014	**—**	**9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on 20 June 2014, the last application day or such later time as described in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

(i) **undertake** to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor and/or the Joint Lead Managers (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

(ii) **agree** to comply with the Companies Ordinance, the Companies (Winding Up and Miscelloneous Provisions) Ordinance and the Articles;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) **confirm** that you are aware of the restrictions on the Share Offer in this prospectus;

(vi) **agree** that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) **undertake and confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing nor participated in the Placing;

(viii) **agree** to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree and warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) **agree** that your application will be governed by the laws of Hong Kong;

(xii) **represent, warrant and undertake** that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) **warrant** that the information you have provided is true and accurate;

(xiv) **agree** to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) **authorise** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare and represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that our Company, the Sole Sponsor and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- **agree** to accept the Public Offer Shares applied for or any lesser number allocated;

- **undertake and confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing;

- (if the electronic application instructions are given for your benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- **confirm** that you understand that our Company, the Directors, the Sole Sponsor and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- **authorise** our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- **agree** that none of our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- **agree** to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;

- **agree** with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and

- **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- **instructed and authorised** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- **instructed and authorised** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- **instructed and authorised** HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Public Offer Shares. Instructions for more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 17 June 2014	**—**	**9:00 a.m. to 8:30 p.m.(1)**
Wednesday, 18 June 2014	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Thursday, 19 June 2014	**—**	**8:00 a.m. to 8:30 p.m.(1)**
Friday, 20 June 2014	**—**	**8:00 a.m.(1) to 12:00 noon**

Note:

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on 17 June 2014 until 12:00 noon on 20 June 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on 20 June 2014, the last application day or such later time as described in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Sole Sponsor, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on 20 June 2014.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 2,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Share Offer" in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 20 June 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on 20 June 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on 26 June 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at **www.jiayaoholdings.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.jiayaoholdings.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on 26 June 2014;
- from the designated results of allocations website at **www.unioniporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on 26 June 2014 to 12:00 midnight on 2 July 2014;
- by telephone enquiry line by calling 3443 6133 between 9:00 a.m. and 6:00 p.m. from 26 June 2014 to 2 July 2014 on a Business Day; and
- in the special allocation results booklets which will be available for inspection during opening hours from 26 June 2014 to 30 June 2014 at all the receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Joint Lead Managers and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company, the Sole Sponsor or the Joint Lead Managers believe that by accepting your application, we or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under pool A (3,750,000 Shares) or pool B (3,750,000 Shares).

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.46 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on 26 June 2014.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around 26 June 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on 27 June 2014 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Union Registrars Limited at 18th Floor, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on 26 June 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on 26 June 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on 26 June 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on 26 June 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

  For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you apply as a CCASS investor participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 26 June 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on 26 June 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed "Publication of Results" above on 26 June 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on 26 June 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on 26 June 2014. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on 26 June 2014.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

17 June 2014

The Directors
Jia Yao Holdings Limited
嘉耀控股有限公司

Dear Sirs,

We set out below our report on the financial information relating to Jia Yao Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined and company statements of financial position as at 31 December 2011, 2012 and 2013, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flow for the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 17 June 2014 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law on 5 August 2013. Pursuant to a corporate reorganisation, as more fully explained in the paragraph headed "History, Reorganisation and Group Structure — Reorganisation" in this prospectus (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 30 April 2014.

As of date of this report, the Company has the following subsidiaries:

Name of subsidiary	*Note*	**Place and date of incorporation/ establishment**	**Issued and fully paid up share capital/ registered capital**	**Attributable equity interest to the Group**	**Principal activities**
Giant Harmony Limited ("Giant Harmony")	*(i)*	British Virgin Islands ("BVI") 15 March 2013	US$20,000	100%	Investment holding
Park Linker Limited ("Park Linker") 柏滙有限公司	*(i)*	Hong Kong 12 April 2013	HK$1	100%	Investment holding

Name of subsidiary	*Note*	Place and date of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Attributable equity interest to the Group	Principal activities
Easy Creator Limited ("Easy Creator") 宜佳有限公司	*(i)*	Hong Kong 12 April 2013	HK$1	100%	Investment holding
King Gather Limited ("King Gather") 帝寶有限公司	*(i)*	Hong Kong 3 May 2013	HK$100	100%	Investment holding
Hubei Golden Three Gorges Printing Industry Co., Ltd* ("Hubei Golden Three Gorges") 湖北金三峽印務有限公司	*(ii)*	The People's Republic of China (the "PRC") 15 August 1992	Registered capital of RMB78,782,100	82.86%	Design, printing and sales of paper cigarette packages and social product paper packages in the PRC
Dangyang Liantong Printing Industry Co., Ltd* ("Dangyang Liantong") 當陽金三峽聯通印務有限公司	*(ii)*	PRC 12 May 2004	Registered capital of RMB40,000,000	87.15%	Design, printing and sales of paper cigarette packages and social product paper packages in the PRC

Notes:

(i) These companies are incorporated with limited liability.

(ii) These entities are sino-foreign joint venture enterprises with limited liability.

* The English translations of company or entity names in Chinese language which are marked with "*" are for identification purpose only.

Upon the completion of the Reorganisation, other than Giant Harmony which will be wholly-owned directly by the Company, all other subsidiaries shall be indirectly held by the Company.

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Company and Giant Harmony since their respective dates of incorporation as they were incorporated in countries where there are no statutory audit requirements, and the Company and Giant Harmony have not carried out any significant business transactions other than those transactions relating to the Reorganisation.

No audited statutory financial statements have been prepared for Park Linker, Easy Creator and King Gather as they are newly incorporated and have not involved in any significant business transactions since their respective dates of incorporation other than those transactions relating to the Reorganisation.

The statutory audited financial statements of the following subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC. They were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	*Note*	**Financial year**	**Name of certified public accountants**
Hubei Golden Three Gorges		Year ended 31 December 2011	國富浩華會計師事務所 (特殊普通合夥)
		Year ended 31 December 2012	湖北佳信聯合會計師事務所
		Year ended 31 December 2013	湖北大地會計師事務有限公司
Dangyang Liantong		Year ended 31 December 2011	國富浩華會計師事務所 (特殊普通合夥)
		Year ended 31 December 2012	湖北佳信聯合會計師事務所
		Year ended 31 December 2013	湖北大地會計師事務有限公司
Hubei Mengke Paper Co., Ltd* ("Hubei Mengke") 湖北盟科紙業有限公司	*(i)*	Year ended 31 December 2011	國富浩華會計師事務所 (特殊普通合夥)
		Year ended 31 December 2012	湖北佳信聯合會計師事務所
Shenzhen Creative Village Marketing Planning Co., Ltd.* ("Shenzhen Creative") 深圳市創意村營銷策劃有限公司	*(ii)*	Each of two years ended 31 December 2012	湖北大地會計師事務有限公司

Notes:

(i) Hubei Mengke is a company established in the PRC with limited liability on 13 June 2005 and a former subsidiary of the Group. The disposal of Hubei Mengke was completed on 1 February 2013, on which date control over Hubei Mengke was passed by the Group to the acquirer.

(ii) Shenzhen Creative is a company established in the PRC with limited liability on 17 May 2004 and a former subsidiary of the Group. The entity had no operation during the Relevant Periods and was deregistered on 12 August 2013.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of

Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs.

We have undertaken an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 of Section B below. No adjustments are considered necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in Note 1 of Section B below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2013 and of the Group as at 31 December 2011, 2012 and 2013 and of the combined results and cash flows for the Relevant Periods then ended.

A. FINANCIAL INFORMATION

Combined statements of profit or loss and other comprehensive income

	Note	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Continuing operations				
Revenue	5	426,248	438,533	495,773
Cost of sales		(299,251)	(313,494)	(337,851)
Gross profit		126,997	125,039	157,922
Other income	6	4,830	6,971	8,412
Other gains and losses	6	(6,712)	(1,173)	(2,578)
Selling and distribution expenses		(30,913)	(19,356)	(31,502)
Administrative and other operating expenses		(43,232)	(37,246)	(48,113)
Listing expenses		—	—	(5,819)
Finance costs	7	(16,109)	(22,878)	(22,545)
Profit before tax		34,861	51,357	55,777
Income tax expense	8	(6,516)	(8,450)	(8,297)
Profit for the year from continuing operations	9	28,345	42,907	47,480
Discontinued operation				
Profit/(loss) for the year from discontinued operation	13	7,152	4,802	(3,816)
Profit for the year		35,497	47,709	43,664
Other comprehensive income for the year, net of income tax		—	—	—
Total comprehensive income for the year		35,497	47,709	43,664
Profit for the year attributable to:				
Owners of the Company		28,460	38,901	35,427
Non-controlling interests		7,037	8,808	8,237
		35,497	47,709	43,664
Total comprehensive income for the year attributable to:				
Owners of the Company		28,460	38,901	35,427
Non-controlling interests		7,037	8,808	8,237
		35,497	47,709	43,664

Details of dividends are disclosed in Note 11 to the Financial Information.

Statements of financial position

		The Group			The Company
		As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 31 December 2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*15*	226,849	204,592	178,325	—
Prepaid lease payments	*16*	33,724	26,828	22,339	—
Deferred tax assets	*25*	2,518	1,722	2,453	—
		263,091	233,142	203,117	—
Current assets					
Inventories	*17*	106,211	60,990	70,539	—
Trade and other receivables	*18*	150,757	196,876	183,927	897
Prepaid lease payments	*16*	767	677	580	—
Available-for-sale investments	*20*	34,300	—	—	—
Amount due from Mr. Feng	*19*	207	59	—	—
Amounts due from former equity holders of a subsidiary	*19*	65,066	94,693	17,258	—
Amount due from a non-controlling equity holder of a subsidiary	*19*	—	164	164	—
Current tax assets		1,209	457	—	—
Pledged bank deposits	*21*	80,346	62,097	59,293	—
Bank balances and cash	*21*	32,318	39,509	29,963	—
		471,181	455,522	361,724	897
Assets classified as held for sale	*14*	—	164,394	3,909	—
		471,181	619,916	365,633	897
Total assets		734,272	853,058	568,750	897

		The Group			The Company
		As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 31 December 2013
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities					
Trade and other payables	*22*	270,832	247,423	220,583	—
Borrowings	*24*	219,000	253,463	94,550	—
Amounts due to former equity holders of a subsidiary	*23*	—	—	93,026	5,716
Amounts due to Controlling Shareholder and Mr. Feng	*23*	—	—	31,987	—
Current tax liabilities		2,098	2,476	3,733	—
		491,930	503,362	443,879	5,716
Liabilities directly associated with assets classified as held for sale	*14*	—	117,823	—	—
		491,930	621,185	443,879	5,716
Net current liabilities		(20,749)	(1,269)	(78,246)	(4,819)
Total assets less current liabilities		242,342	231,873	124,871	(4,819)
Non-current liabilities					
Borrowings	*24*	20,000	—	60,000	—
Deferred tax liabilities	*25*	3,674	3,407	1,866	—
		23,674	3,407	61,866	—
Net assets/(liabilities)		218,668	228,466	63,005	(4,819)
Capital and reserves					
Paid-in capital/share capital	*27*	75,279	75,279	62	—
Reserves	*28*	93,826	108,622	33,388	(4,819)
Equity attributable to owners of the Company		169,105	183,901	33,450	—
Non-controlling interests		49,563	44,565	29,555	—
Total equity		218,668	228,466	63,005	(4,819)

Combined statements of changes in equity

	Attributable to owners of the Company						
	Paid-in capital/ share capital *RMB'000* *(Note 27)*	Special reserve *RMB'000* *(Note 28)*	PRC statutory reserve *RMB'000* *(Note 28)*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance as at 1 January 2011	75,279	8,798	31,606	44,534	160,217	48,198	208,415
Profit and total comprehensive income for the year	—	—	—	28,460	28,460	7,037	35,497
Dividends recognised as distribution *(Note 11)*	—	—	—	(19,572)	(19,572)	(4,048)	(23,620)
Dividends declared by a subsidiary of Hubei Golden Three Gorges	—	—	—	—	—	(1,624)	(1,624)
Transfer to reserves	—	—	5,880	(5,880)	—	—	—
Balance as at 31 December 2011	75,279	8,798	37,486	47,542	169,105	49,563	218,668
Profit and total comprehensive income for the year	—	—	—	38,901	38,901	8,808	47,709
Dividends recognised as distribution *(Note 11)*	—	—	—	(31,414)	(31,414)	(6,497)	(37,911)
Transfer to reserves	—	—	3,702	(3,702)	—	—	—
Deemed contribution from a Controlling Shareholder	—	5,300	—	—	5,300	—	5,300
Acquisition of additional equity interests from non-controlling interests	—	2,009	—	—	2,009	(7,309)	(5,300)
Balance as at 31 December 2012	75,279	16,107	41,188	51,327	183,901	44,565	228,466
Profit and total comprehensive income for the year	—	—	—	35,427	35,427	8,237	43,664
Dividends recognised as distribution *(Note 11)*	—	—	—	(67,283)	(67,283)	(13,914)	(81,197)
Disposal of subsidiaries	—	—	—	—	—	(9,333)	(9,333)
Issue of ordinary shares of Giant Harmony	62	—	—	—	62	—	62
Arising from Reorganisation	(75,279)	(43,378)	—	—	(118,657)	—	(118,657)
Balance as at 31 December 2013	62	(27,271)	41,188	19,471	33,450	29,555	63,005

Combined statements of cash flows

	Note	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
		RMB'000	*RMB'000*	*RMB'000*
Profit for the year		35,497	47,709	43,664
Adjustments for:				
Income tax expense recognised in profit or loss		7,819	9,708	8,705
Finance costs		21,624	26,290	22,681
Interest income		(1,803)	(5,408)	(4,349)
Amortisation of prepaid lease payments		767	827	702
Depreciation of property, plant and equipment		22,922	22,957	21,533
Impairment losses on property, plant and equipment		6,715	861	361
Loss on disposal of property, plant and equipment		215	410	2,538
Loss on disposal of subsidiaries		—	—	5,130
Gain on disposal of available-for-sale investments		—	—	(458)
Reversal of impairment losses on trade receivables		(218)	(98)	—
Impairment losses on trade receivables		—	—	47
Operating cash flows before movements in working capital		93,538	103,256	100,554
Increase in inventories		(8,721)	(703)	(18,095)
Decrease/(increase) in trade and other receivables		53,122	(126,621)	10
(Increase)/decrease in amount due from Mr. Feng		(207)	148	59
Decrease/(increase) in amount due from a non-controlling equity holder of a subsidiary		1,409	(164)	—
(Decrease)/increase in trade and other payables		(43,924)	73,909	9,064
Decrease in amount due to Mr. Feng		(2)	—	—
Increase in amount due to a former equity holder of a subsidiary		—	—	5,770
Cash generated from operations		95,215	49,825	97,362
Interest received		1,803	5,408	4,349
Income tax paid		(8,295)	(7,003)	(8,855)
Net cash generated from operating activities		88,723	48,230	92,856

	Note	Year ended 31 December 2011 RMB'000	Year ended 31 December 2012 RMB'000	Year ended 31 December 2013 RMB'000
Cash flows from investing activities				
(Increase)/decrease in amounts due from former equity holders of a subsidiary		(62,852)	(31,041)	5,416
Advances from Controlling Shareholder and Mr. Feng		—	—	31,987
Decrease/(increase) in pledged bank deposits		10,817	3,804	(196)
Purchase of available-for-sale investments		(34,300)	—	—
Acquisition of prepaid lease payments		(1,465)	—	—
Net cash outflows on disposal of a subsidiary	26(a)	—	—	(9,401)
Proceeds from disposals of available-for-sale investments		—	34,300	1,658
Purchase of property, plant and equipment and related deposits paid		(32,457)	(15,900)	(4,991)
Proceeds from disposal of property, plant and equipment		5,150	335	13,751
Consideration paid to former equity holders of a subsidiary in respect of the transfer of equity interests in the subsidiaries arising from the Reorganisation		—	—	(31,401)
Deposit received in advance in respect of disposal of a subsidiary		—	22,000	—
Loan to a former equity holder of a subsidiary		—	(30,000)	—
Net cash (used in)/generated from investing activities		(115,107)	(16,502)	6,823
Cash flows from financing activities				
Proceeds from borrowings		342,000	263,963	232,566
Repayments of borrowings		(281,505)	(249,500)	(321,501)
Issue of ordinary shares of Giant Harmony		—	—	62
Dividends paid to former equity holders of subsidiaries		(8,679)	—	—
Dividend paid to non-controlling interests		(163)	(10,381)	—
Interest paid		(13,925)	(17,963)	(14,196)
Other finance costs paid		(7,699)	(8,327)	(8,485)
Net cash generated from/(used in) financing activities		30,029	(22,208)	(111,554)
Net increase/(decrease) in cash and cash equivalents		3,645	9,520	(11,875)
Cash and cash equivalents at the beginning of year		28,673	32,318	41,838
Cash and cash equivalents at the end of year		32,318	41,838	29,963
Representing:				
Bank balances and cash		32,318	39,509	29,963
Bank balances and cash included in assets classified as held for sale	14	—	2,329	—
		32,318	41,838	29,963

B. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 5 August 2013. At the date of this report, its parent and ultimate holding company is Spearhead Leader Limited, a company incorporated in the British Virgin Islands. The registered office of the Company is located at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1–1108, Cayman Islands. The Company is an investment holding company. The principal activities of its subsidiaries are the design, printing and sales of paper cigarette packages and social product paper packages in the PRC.

Throughout the Relevant Periods, the group entities were under the control of a director of the Company, Mr. Yang Yoong An ("Mr. Yang") (the "Controlling Shareholder"). Through the Reorganisation as more fully explained in the section headed "History, Reorganisation and Group Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group on 30 April 2014. Accordingly, for the purpose of the preparation of the Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Relevant Periods. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. The Group was under the control of the Controlling Shareholder both before and after the Reorganisation.

Since the commencement of the Relevant Periods and immediately before the Reorganisation, Hubei Golden Three Gorges was directly owned by as to 36.74% by Medicon Pharmaceutical Industries Limited (盟科藥業有限公司) ("Medicon"), as to 24.58% by Maoming Xin Jia Chang Investment Company Limited* (茂名市新嘉昌投資有限公司) ("Maoming Company"), as to 21.54% by Shenzhen Yi Heng Yuan Investment Company Limited* (深圳市溢恒源投資有限公司) ("Shenzhen Company") and as to 17.14% by a non-controlling shareholder, Hubei Three Gorges Tobacco Co., Ltd* (湖北三峽煙草有限公司) ("Hubei Three Gorges"). Each of Mr. Yang and Mr. Feng Bin ("Mr. Feng") owned 76.715% and 6.145% effective interests in Hubei Golden Three Gorges through their respective equity interests in Medicon, Maoming Company and Shenzhen Company throughout the Relevant Periods. Medicon, Maoming Company and Shenzhen Company were under the common control of Mr. Yang throughout the Relevant Periods.

As part of the Reorganisation:

(i) Easy Creator entered into an equity transfer agreement with each of Medicon, Shenzhen Company and Maoming Company on 15 May 2013, pursuant to which Medicon, Shenzhen Company and Maoming Company agreed to transfer their respective equity interests of 36.74%, 21.54% and 18.435% in Hubei Golden Three Gorges to Easy Creator at a consideration of approximately RMB47,365,000, RMB27,767,000 and RMB23,762,000, respectively. The transfer of the respective equity interests in Hubei Golden Three Gorges from Medicon, Shenzhen Company and Maoming Company to Easy Creator was completed on 1 August 2013.

(ii) On 25 July 2013, Yichang Jiansen Commerce Company Limited* (宜昌簡森商貿有限公司) ("Yichang Company"), a company wholly-owned by Mr. Feng, entered into another equity transfer agreement with Maoming Company, pursuant to which Maoming Company agreed to transfer its 6.145% equity interests in Hubei Golden Three Gorges to Yichang Company at a consideration of approximately RMB7,921,000 and the transfer was completed on 2 August 2013.

(iii) On 10 August 2013, Easy Creator entered into another equity transfer agreement with Yichang Company, pursuant to which Yichang Company agreed to transfer its 6.145% equity interests in Hubei Golden Three Gorges to Easy Creator at a consideration of approximately RMB7,921,000 and the transfer was completed on 4 September 2013.

Since the commencement of the Relevant Periods and before 29 June 2012, Dangyang Liantong was owned as to 75% by Hubei Golden Three Gorges, as to 8% by Medicon and as to 17% by a non-controlling shareholder, Shanghai Asia Company Pte. Ltd (上海亞洲私人有限公司). On 29 June 2012, Medicon acquired the equity interests of 17% in Dangyang Liantong from Shanghai Asia Company Pte. Ltd at a consideration of approximately RMB5,300,000. The change in the ownership interest of Dangyang Liantong, without a loss of control, was accounted for as an equity transaction.

As part of the Reorganisation, Easy Creator entered into an equity transfer agreement with Medicon on 15 May 2013, pursuant to which Medicon agreed to transfer its equity interest of 25% in Dangyang Liantong to Easy Creator at a consideration of approximately RMB11,842,000 and the transfer was completed on 1 August 2013.

Throughout the Relevant Periods, Shenzhen Creative was owned as to 60% by Hubei Golden Three Gorges and as to 40% by a non-controlling shareholder, Beijing Creative Village Marketing Planning Co., Ltd.* (北京創意村營銷策劃有限公司). On 12 August 2013, the deregistration of Shenzhen Creative was approved by the relevant PRC government authority.

Since the commencement of the Relevant Periods and before 1 February 2013, Hubei Mengke was owned as to 75% by Hubei Golden Three Gorges and as to 25% by a non-controlling shareholder, Medicon. On 12 November 2012, Hubei Golden Three Gorges entered into an equity transfer agreement with Zhuhai Heng Qin Xinqu Jia Chuang Investment Co., Ltd* (珠海橫琴新區嘉創投資有限公司) ("Zhuhai Company"), pursuant to which Hubei Golden Three Gorges agreed to dispose of its 70% equity interests in Hubei Mengke to Zhuhai Company at a cash consideration of approximately RMB22,000,000. The transfer of 70% equity interests in Hubei Mengke was completed on 1 February 2013. The change in the ownership interest of Hubei Mengke, with a loss of control, was accounted for as a disposal of subsidiary on 1 February 2013.

On 27 April 2013, Hubei Golden Three Gorges entered into another equity transfer agreement with Zhuhai Company, pursuant to which Hubei Golden Three Gorges agreed to dispose of its remaining 5% equity interests in Hubei Mengke to Zhuhai Company at a cash consideration of approximately RMB1,658,000. The disposal was completed on 18 July 2013.

Basis of presentation of the financial information

The Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Relevant Periods in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Relevant Periods which include the results, changes in equity and cash flows of the companies comprising the Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where it is a shorter period. The statements of financial position as at the respective reporting dates have been prepared to present the assets and liabilities of the companies comprising the Group as if the current group structure had been in existence at those dates.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the "functional currency"). The functional currency of the Company is Hong Kong Dollar. The functional currencies of the Group's operating subsidiaries are Renminbi ("RMB"). The Financial Information is presented in RMB, which is different from the functional currency of the Company. The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, event and conditions of the Group.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations ("HK(IFRIC)-Int") issued by the HKICPA which are effective for accounting periods beginning on 1 January 2013 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised standards, amendments or interpretations that are not yet effective. The Group has not early applied these standards, amendments and interpretations.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC) — INT 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Effective for annual periods beginning on or after 1 July 2014.

3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

5 Effective for the first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of the new and revised standards, amendments and interpretations will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

The Financial Information have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

Basis of combination

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

The changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the carrying amount of the net assets attributable to the change in interests by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statements of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the combined financial information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All borrowing costs not associated with qualifying assets are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the combined statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories, including financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income" and "other gains and losses" line items in the combined statements of profit or loss and other comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any identified impairment losses (see the accounting policy in respect of impairment losses on financial assets below).

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

For AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of each of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from Mr. Feng, amounts due from former equity holders of a subsidiary, amount due from a non-controlling equity holder of a subsidiary, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is measured the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of investment can be objectively related to an event occurring after the recognition of the impairment loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the "other gains and losses" line item.

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to former equity holders of a subsidiary, amounts due to Controlling Shareholder and Mr. Feng and borrowings) are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies;

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

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding income taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding income taxes are provided.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives, residual value and impairment of property, plant and equipment

The Group estimates useful lives, residual values and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. The depreciation charge will increase where useful lives are less than previously estimated. Details of the useful lives of property, plant and equipment are disclosed in Note 15.

In addition, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount which is the higher of the value in use and fair value less cost to sell of the assets. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the continuing use of the assets and from its ultimate disposal and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of property, plant and equipment as at 31 December 2011, 2012 and 2013 were approximately RMB226,849,000, RMB220,790,000 and RMB178,325,000 respectively.

Net realisable value of inventories

The Group writes down inventories for obsolescence based on an assessment of the net realisable value of inventories. Write-down is applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the carrying amount of inventories. The identification of obsolete inventories requires the use of judgements and estimates on the conditions and usefulness of the inventories. The amount of write-down would be changed as a result of the changes in current market conditions subsequently.

As at 31 December 2011, 2012 and 2013, the carrying amounts of inventories are approximately RMB106,211,000, RMB106,914,000 and RMB70,539,000 respectively.

5. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue from continuing operations represents revenue arising on sales of paper cigarette packages and social product paper packages for the Relevant Periods.

An analysis of revenue from continuing operations is as follows:

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Year ended 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
Sales of paper cigarette packages	411,461	411,408	469,513
Sales of social product paper packages	14,787	27,125	26,260
	426,248	438,533	495,773

Segment information

The Group manages its businesses by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments under HKFRS 8 are as follows:

Paper cigarette packages — design, printing and sale of paper cigarette packages

Social product paper packages — design, printing and sale of social product paper packages (e.g. packages for alcohol, medicines and food)

For the year ended 31 December 2011:	Paper cigarette packages	Social product paper packages	Total
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Segment revenue	411,461	14,787	426,248
Segment profit	125,711	1,286	126,997
Other income			4,830
Other gains and losses			(6,712)
Selling and distribution expenses			(30,913)
Administrative and other operating expenses			(43,232)
Finance costs			(16,109)
Profit before tax from continuing operations			34,861

For the year ended 31 December 2012:	Paper cigarette packages	Social product paper packages	Total
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Segment revenue	411,408	27,125	438,533
Segment profit	120,232	4,807	125,039
Other income			6,971
Other gains and losses			(1,173)
Selling and distribution expenses			(19,356)
Administrative and other operating expenses			(37,246)
Finance costs			(22,878)
Profit before tax from continuing operations			51,357

For the year ended 31 December 2013:	Paper cigarette packages	Social product paper packages	Total
	RMB'000	*RMB'000*	*RMB'000*
Continuing operations			
Segment revenue	469,513	26,260	495,773
Segment profit	153,884	4,038	157,922
Other income			8,412
Other gains and losses			(2,578)
Selling and distribution expenses			(31,502)
Administrative and other operating expenses			(48,113)
Listing expenses			(5,819)
Finance costs			(22,545)
Profit before tax from continuing operations			55,777

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the Relevant Periods.

The accounting policies of the operating and reportable segments information are the same as the Group's accounting policies described in Note 3. Segment results represents the profit earned by each segment without allocation of selling and distribution expenses, administrative and other operating expenses, other income, other gains and losses, listing expenses, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Other segment information

Continuing operations	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Paper cigarette packages:			
Depreciation of property, plant and equipment	19,655	18,838	18,999
Impairment losses on property, plant and equipment	6,715	861	361
Amortisation of prepaid lease payments	571	602	602
Social product paper packages:			
Depreciation of property, plant and equipment	1,582	2,337	2,386
Amortisation of prepaid lease payments	46	75	75

Segment assets and liabilities

Segment assets and liabilities are not disclosed in the Financial Information as they are not regularly provided to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Geographical information

As all the Group's revenue is derived from customers located in the PRC and all the Group's identifiable non-current assets are principally located in the PRC, no geographical segment information is presented.

Information about major customers

Revenue from customers contributing over 10% of the total revenue from continuing operations of the Group during the Relevant Periods are as follows:

	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Customer A *(Note)*	64,082	N/A[1]	58,952
Customer B	84,769	90,119	112,355
Customer C	49,404	N/A[1]	N/A[1]
Customer D	72,467	62,178	N/A[1]
Customer E	N/A[1]	N/A[1]	57,502
	270,722	152,297	228,809

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Note: Customer A is Hubei China Tobacco Industrial Co., Ltd.* (湖北中煙工業有限責任公司) ("China Tobacco Hubei"), an intermediate holding company of a subsidiary's non-controlling shareholder, Hubei Three Gorges. In addition to the amounts disclosed above, the revenue from China Tobacco Hubei was approximately RMB25,029,000 for the year ended 31 December 2012.

6. OTHER INCOME, AND OTHER GAINS AND LOSSES

Continuing operations	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Other income			
Government grants *(Note)*	1,400	635	513
Interest income on bank deposits	1,763	3,828	4,349
Other interest income	—	1,500	690
Sundry income	1,667	1,008	2,860
	4,830	6,971	8,412
Other gains and losses			
Loss on disposal of property, plant and equipment	(215)	(410)	(2,538)
Loss on disposal of a subsidiary	—	—	(90)
Gain on disposal of available-for-sale investments	—	—	458
Impairment losses on property, plant and equipment	(6,715)	(861)	(361)
Reversal/(recognition) of impairment losses on trade receivables	218	98	(47)
	(6,712)	(1,173)	(2,578)

Note: Government grants represented subsidies from various PRC governmental authorities which had no conditions or limitations attached.

7. FINANCE COSTS

Continuing operations	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Interest on bank and other borrowings wholly repayable within five years	13,463	17,092	14,076
Finance costs arising on early redemption of note receivables	1,613	4,991	7,196
Other bank charges	1,033	795	1,273
Total finance costs	16,109	22,878	22,545

8. INCOME TAX EXPENSE

Continuing operations	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Current tax:			
PRC Enterprise Income Tax ("EIT")	6,052	8,000	10,621
(Overprovision)/underprovision in prior years	(235)	57	(52)
Deferred tax *(Note 25)*	699	393	(2,272)
	6,516	8,450	8,297

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Relevant Periods. No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit subject to Hong Kong Profits Tax during the Relevant Periods.

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New EIT Law. Under the New EIT Law and Implementation Regulation, the statutory EIT rates of the Group's subsidiaries in the PRC have been reduced to 25% from 1 January 2008 onwards. Except for a major operating subsidiary in the PRC, Hubei Golden Three Gorges, which is qualified as the High and New Technology Enterprise since 16 September 2009, Hubei Golden Three Gorges is entitled to a preferential income tax rate of 15% for the periods from 16 September 2009 to 15 September 2012 and then extended from 20 November 2012 to 19 November 2015.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary, Hubei Mengke, was entitled to exemption from the PRC EIT for the first two years commencing from its first profit-making year of operation and thereafter, it is entitled to a 50% relief from the PRC EIT for the following three years. The first profit making year of Hubei Mengke is the year ended 31 December 2007. Accordingly, Hubei Mengke was exempted from EIT for the years ended 31 December 2007 and 2008, followed by a 50% reduction for the years ended 31 December 2009, 2010 and 2011.

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. During the Relevant Periods, deferred taxation has been provided on undistributed earnings attributable to non-PRC tax resident equity holders of the subsidiaries in the PRC.

The tax charge for the Relevant Periods relating to continuing operations can be reconciled to the profit before tax from continuing operations per combined statements of profit or loss and other comprehensive income as follows:

Continuing operations	**Year ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	34,861	51,357	55,777
Tax at PRC EIT rate of 25%	8,715	12,839	13,944
Tax effect of expenses not deductible for tax purpose	3,261	2,889	1,721
Tax effect of allowance for tax purpose	(2,838)	(3,229)	(1,995)
Tax effect of income tax on concessionary rate	(3,869)	(3,763)	(5,069)
Tax effect of tax losses not recognised	84	—	851
Utilisation of tax losses not recognised	—	(76)	—
Tax effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	1,091	(267)	(1,541)
(Overprovision)/underprovision in prior years	(235)	57	(52)
Others	307	—	438
Income tax expense for the year	6,516	8,450	8,297

9. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit for the year from continuing operations is attributable to:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Owners of the Company	24,341	36,055	39,759
Non-controlling interests	4,004	6,852	7,721
	28,345	42,907	47,480

Profit for the year from continuing operations has been arrived at after charging/(crediting):

Continuing operations	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Staff costs:			
Directors' emoluments *(Note 10)*	—	—	—
Other staff costs:			
Salaries and other benefits	33,370	29,526	34,855
Contributions to retirement benefits schemes, excluding those of directors	3,988	4,465	5,613
	37,358	33,991	40,468
Auditors' remuneration	423	103	66
Depreciation of property, plant and equipment	21,237	21,175	21,385
Impairment losses on property, plant and equipment	6,715	861	361
Loss on disposal of property, plant and equipment	215	410	2,538
Amortisation of prepaid lease payments	617	677	677
Operating lease rentals in respect of rented premises	411	511	—
(Reversal)/provision for impairment loss on trade receivables	(218)	(98)	47
Cost of inventories recognised as an expense	299,251	313,494	337,851

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

Details of the emoluments paid or payable to the directors of the Company during the Relevant Periods are as follows:

		Other emoluments		
	Fees	**Salaries and other benefits**	**Contributions to retirement benefits schemes**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2011				
Executive director				
Mr. Yang	—	—	—	—
For the year ended 31 December 2012				
Executive director				
Mr. Yang	—	—	—	—
For the year ended 31 December 2013				
Executive director				
Mr. Yang	—	—	—	—

Notes:

(i) Mr. Yang was appointed as director of the Company on 5 August 2013 and was redesignated as executive director of the Company on 24 March 2014. No emoluments were paid or payable by the Group to him prior to his appointment as director during the Relevant Periods.

(ii) Mr. Feng was appointed as executive director of the Company on 24 March 2014. The details of his emoluments as disclosed below for the years ended 31 December 2011, 2012 and 2013 included the remuneration prior to his appointment as executive director of the Company.

	Other emoluments		
	Salaries and other benefits	**Contributions to retirement benefits schemes**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 December 2011	182	11	193
For the year ended 31 December 2012	165	18	183
For the year ended 31 December 2013	165	23	188

(iii) Mr. Yang Fan was appointed as non-executive director of the Company on 24 March 2014. No emoluments were paid or payable by the Group to him during the Relevant Periods.

Employees' emoluments

None of the director is included in the five highest paid individuals during the Relevant Periods. The emoluments of the five highest paid individuals are as follows:

	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Salaries and other benefits	1,178	1,062	1,081
Contributions to retirement benefits schemes	49	54	105
Total emoluments	1,227	1,116	1,186

Each of their emoluments during each of the years ended 31 December 2011, 2012 and 2013 was within HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (included directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. Prior to the Reorganisation, Hubei Golden Three Gorges had declared dividends to its then equity owners as follows:

	Year ended 31 December 2011 *RMB'000*	Year ended 31 December 2012 *RMB'000*	Year ended 31 December 2013 *RMB'000*
Medicon	8,678	13,930	29,835
Maoming Company	5,806	9,318	19,957
Shenzhen Company	5,088	8,166	17,491
Non-controlling interests	4,048	6,497	13,914
	23,620	37,911	81,197

The rate of dividend and number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

No earnings per share information is presented, as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of Financial Information, on the basis as set out in Note 1.

13. DISCONTINUED OPERATION

On 12 November 2012, the Group entered into an equity transfer agreement with Zhuhai Company, pursuant to which its subsidiary, Hubei Golden Three Gorges, agreed to dispose of its 70% equity interests in a subsidiary, Hubei Mengke to Zhuhai Company, at a cash consideration of approximately RMB22,000,000. Hubei Mengke is engaged in the production, processing and sale of high-grade paper, paper board and plastic business and carried out all of the Group's paper processing business in the PRC. The disposal was completed on 1 February 2013, on which date control over Hubei Mengke was passed to Zhuhai Company.

The results of the discontinued operation included in the combined statements of profit or loss and other comprehensive income during the Relevant Periods are set out below.

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Revenue	141,665	174,048	28,764
Less: sales to continuing operations	(75,420)	(62,535)	(10,476)
Sales to third parties	66,245	111,513	18,288
Cost of sales	119,012	149,800	22,887
Less: cost of sales associated with sales to continuing operations	(62,038)	(54,072)	(7,843)
Cost of sales to third parties	56,974	95,728	15,044
Gross profit arising from sales to third parties	9,271	15,785	3,244
Gross profit arising from sales to continuing operations	13,382	8,463	2,633
Other income	3,090	2,405	50
Other gains and losses	—	(232)	—
Selling and distribution expenses	(8,982)	(11,870)	(3,438)
Administrative and other operating expenses	(2,791)	(5,079)	(721)
Finance costs	(5,515)	(3,412)	(136)
Profit before tax from discontinued operation	8,455	6,060	1,632
Income tax expense	(1,303)	(1,258)	(408)
	7,152	4,802	1,224
Loss on disposal of a subsidiary *(Note 26)*	—	—	(5,040)
Profit/(loss) for the year from discontinued operation	7,152	4,802	(3,816)

Profit/(loss) for the year from discontinued operation include the following:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Auditors' remuneration	23	13	—
Depreciation of property, plant and equipment	1,685	1,782	148
Amortisation of prepaid lease payments	150	150	25
Cost of inventories associated with sales to third party recognised as an expense	56,974	95,728	15,044

The net cash flows incurred by the discontinued operation are as follows:

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Net cash inflows from operating activities	6,903	17,014	10,654
Net cash outflows from investing activities	(629)	(14,687)	(3,446)
Net cash outflows from financing activities	(5,515)	(3,384)	(136)
Net cash inflows/(outflows)	759	(1,057)	7,072

The paper processing business has been classified and accounted for at 31 December 2012 as a disposal group held for sale (Note 14).

14. ASSETS CLASSIFIED AS HELD FOR SALE

The Group

	Note	As at 31 December 2012	As at 31 December 2013
		RMB'000	*RMB'000*
Assets related to paper processing business	*(i)*	164,394	—
Prepaid lease payments	*(ii)*	—	3,909
		164,394	3,909
Liabilities directly associated with assets classified as held for sale	*(i)*	117,823	—

Notes:

(i) As described in Note 13, the Group entered into equity transfer agreement to dispose of its 70% equity interests in a subsidiary, Hubei Mengke, to Zhuhai Company on 12 November 2012. Hubei Mengke carried out all of the Group's paper processing business in the PRC. The disposal was completed on 1 February 2013, on which date control over Hubei Mengke was passed to Zhuhai Company.

The paper processing business has been classified and accounted for as a disposal group held for sale as at 31 December 2012. In accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*, the disposed subsidiary's assets and liabilities were reclassified as assets and liabilities held for sale respectively. The remaining 5% equity interests in Hubei Mengke has been classified as available-for-sale investment upon the completion of the disposal.

The assets and liabilities of Hubei Mengke as at 31 December 2012 are as follows:

	As at 31 December 2012
	RMB'000
Property, plant and equipment	16,198
Prepaid lease payments	6,159
Deferred tax assets	698
Inventories	45,924
Trade and other receivables	78,641
Pledged bank deposits	14,445
Bank balances and cash	2,329
Assets classified as held for sale	164,394
Trade and other payables	116,079
Current tax liabilities	1,454
Deferred tax liabilities	290
Liabilities directly associated with assets classified as held for sale	117,823
Net assets of paper processing business classified as held for sale	46,571

(ii) On 30 May 2013, the Group entered into a number of sale and purchase agreements with Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase and the Group agreed to dispose of certain of its property, plant and equipment and prepaid lease payments. The disposal of the property, plant and equipment was completed during the year ended 31 December 2013 and the disposal of the prepaid lease payments has not been completed as of the date of this report. As at 31 December 2013, the Group's prepaid lease payments with a carrying amount of approximately RMB3,909,000 has been classified as assets held for sale. No impairment loss was recognised on reclassification of the prepaid lease payments as held for sale as at 31 December 2013.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
Balance as at 1 January 2011	36,852	264,728	13,743	8,795	4,993	329,111
Additions	63	31,173	650	916	3,980	36,782
Transfer	505	7,060	255	—	(7,820)	—
Disposals	—	(7,518)	(582)	(2)	—	(8,102)
Balance as at 31 December 2011	37,420	295,443	14,066	9,709	1,153	357,791
Additions	—	10,432	641	1,518	5,913	18,504
Transfer	266	535	—	—	(801)	—
Disposals	—	(2,858)	(419)	—	—	(3,277)
Reclassification as held for sale	(140)	(22,170)	(760)	(396)	(71)	(23,537)
Balance as at 31 December 2012	37,546	281,382	13,528	10,831	6,194	349,481
Additions	296	8,336	408	—	2,728	11,768
Transfer	—	8,270	70	—	(8,340)	—
Disposals	(17,448)	(5,154)	(1,033)	(989)	—	(24,624)
Balance as at 31 December 2013	20,394	292,834	12,973	9,842	582	336,625
Accumulated depreciation and impairment						
Balance as at 1 January 2011	5,558	87,864	8,002	2,618	—	104,042
Depreciation expenses	3,457	17,430	1,251	784	—	22,922
Eliminated on disposals	—	(2,255)	(481)	(1)	—	(2,737)
Impairment losses recognised in profit or loss	—	6,715	—	—	—	6,715
Balance as at 31 December 2011	9,015	109,754	8,772	3,401	—	130,942
Depreciation expenses	1,853	18,463	1,603	1,038	—	22,957
Eliminated on disposals	—	(2,152)	(380)	—	—	(2,532)
Impairment losses recognised in profit or loss	—	861	—	—	—	861
Eliminated on reclassification as held for sale	(24)	(6,743)	(440)	(132)	—	(7,339)
Balance as at 31 December 2012	10,844	120,183	9,555	4,307	—	144,889
Depreciation expenses	1,636	17,735	1,054	960	—	21,385
Eliminated on disposals	(3,542)	(3,284)	(867)	(642)	—	(8,335)
Impairment losses recognised in profit or loss	—	361	—	—	—	361
Balance as at 31 December 2013	8,938	134,995	9,742	4,625	—	158,300
Carrying amounts						
Balance as at 31 December 2013	11,456	157,839	3,231	5,217	582	178,325
Balance as at 31 December 2012	26,702	161,199	3,973	6,524	6,194	204,592
Balance as at 31 December 2011	28,405	185,689	5,294	6,308	1,153	226,849

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of their residual values, over the following useful lives:

Buildings	10 to 40 years
Plant and machinery	4 to 40 years
Furniture, fixtures and equipment	4 to 10 years
Motor vehicles	5 to 10 years

Impairment losses recognised during the Relevant Periods

During the Relevant Periods, the Group carried out a review of the recoverable amounts of the manufacturing plants and the related equipment. These assets are used in the Group's paper cigarette packages segment. The review led to the recognition of impairment losses attributable to the paper cigarette packages segment of approximately RMB6,715,000, RMB861,000 and RMB361,000 for the years ended 31 December 2011, 2012 and 2013, respectively, which have been recognised in profit or loss. The recoverable amounts of the relevant assets have been determined on the basis of cost and market approach. The valuation was carried out by an independent professional valuer.

The buildings shown above are situated on land in the PRC which are held by the Group under medium-term leases.

Details of property, plant and equipment being pledged are set out in Note 31.

16. PREPAID LEASE PAYMENTS

The Group

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
At the beginning of the year	33,793	34,491	27,505
Additions	1,465	—	—
Amortisation during the year	(767)	(827)	(677)
Reclassification as held for sale	—	(6,159)	(3,909)
At the end of the year	34,491	27,505	22,919
Analysed for reporting purposes as:			
Current portion	767	677	580
Non-current portion	33,724	26,828	22,339
	34,491	27,505	22,919

The prepaid lease payments represent payments for land use rights in the PRC which are held under medium-term lease.

Details of prepaid lease payments being pledged are set out in Note 31.

17. INVENTORIES

The Group

	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000
Raw materials	65,252	36,718	38,466
Work in progress	6,773	10,347	9,985
Finished goods	34,186	13,925	22,088
	106,211	60,990	70,539

Details of inventories being pledged are set out in Note 31.

18. TRADE AND OTHER RECEIVABLES

	The Group			The Company
	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000	As at 31 December 2013 RMB'000
Trade receivables	132,455	155,637	148,334	—
Less: allowance for doubtful debts	(581)	(138)	(185)	—
	131,874	155,499	148,149	—
Note receivables	1,150	24,390	1,250	—
Other receivables	606	142	13,823	—
Payments in advance	2,589	637	9,972	—
Advance to employees	9,159	11,942	7,070	—
Deposit paid for machinery and equipment	3,259	2,513	1,162	—
Prepaid listing expenses	—	—	897	897
Prepayments and deposits paid	2,120	1,753	1,604	—
Total trade and other receivables	150,757	196,876	183,927	897

Included in the Group's trade receivables are receivables from China Tobacco Hubei of approximately RMB18,070,000, RMB11,120,000 and RMB9,927,000 as at 31 December 2011, 2012 and 2013 respectively. The amounts were unsecured and interest-free.

In addition, included in the Group's trade receivables are receivables from the following related parties. The amounts were unsecured and interest-free.

	Note	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000
Companies controlled by a former director of a subsidiary	*(i)*	4,440	—	—

Note:

(i) The former director of a subsidiary resigned as a director of the subsidiary on 15 May 2013.

Included in the Group's other receivables and payment in advance are receivables from and advance to a former subsidiary, Hubei Mengke, of approximately RMB13,382,000 and RMB8,523,000 respectively as at 31 December 2013. The amount was unsecured, interest-free and had no fixed term of repayment.

The above trade and other receivables are denominated in the functional currencies of the relevant group entities.

The average credit period on sales of goods is ranging from 30 to 120 days from the date of the invoice.

The following is an analysis of trade receivables by age, presented based on the date of delivery of goods, which approximates the respective revenue recognition dates. The analysis below includes those classified as part of a disposal group held for sale, net of allowance for doubtful debts, at the end of each of the Relevant Periods:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	108,574	182,602	125,095
91 to 180 days	17,556	32,702	18,507
181 to 360 days	3,720	1,356	3,407
Over 360 days	2,024	3,610	1,140
	131,874	220,270	148,149

The following is an analysis of note receivables by age, presented based on the date of issuance of notes. The analysis below includes those classified as part of a disposal group held for sale at the end of each of the Relevant Periods:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	150	9,320	1,100
91 to 180 days	1,000	21,900	150
	1,150	31,220	1,250

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by each customer. Limits attributed to customers are reviewed once a year.

The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the Group and the repayment history of these customers were good.

Included in Group's trade receivables are receivables with the following carrying amounts which are past due as at the end of each of the Relevant Periods for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
0 to 90 days	12,131	33,607	15,219
91 to 180 days	2,561	2,872	2,889
181 to 360 days	887	694	1,158
Over 360 days	1,366	150	599
	16,945	37,323	19,865

Allowance of the above amount has not been made by the Group as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The directors of the Company consider they are in good credit quality.

Movement in the allowance of doubtful debts for trade receivables

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Balance at beginning of the year	799	581	138
(Reversal)/recognition of impairment losses on trade receivables	(218)	(98)	47
Eliminated on reclassification as held for sale	—	(345)	—
Balance at end of the year	581	138	185

19. AMOUNTS DUE FROM MR. FENG/FORMER EQUITY HOLDERS OF A SUBSIDIARY/A NON-CONTROLLING EQUITY HOLDER OF A SUBSIDIARY

The Group

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Amount due from Mr. Feng	207	59	—
Amounts due from former equity holders of a subsidiary			
Medicon	—	1,393	—
Maoming Company	24,225	60,626	9,648
Shenzhen Company	40,841	32,674	7,610
	65,066	94,693	17,258
Amount due from a non-controlling equity holder of a subsidiary			
Hubei Three Gorges	—	164	164

Maximum amounts outstanding during each of the Relevant Periods

	Year ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Amount due from Mr. Feng	338	2,304	1,170
Amounts due from former equity holders of a subsidiary			
Medicon	—	1,393	1,965
Maoming Company	24,484	74,225	73,421
Shenzhen Company	40,850	40,849	32,683
Amount due from a non-controlling equity holder of a subsidiary			
Hubei Three Gorges	1,409	164	164

The amounts arose from temporary fund transfer, which was non-trade in nature. Included in the Group's amounts due from former equity holders of a subsidiary is a loan to Maoming Company of approximately RMB30,000,000 as at 31 December 2012. The loan was unsecured, interest-bearing at 7.5% per annum and fully settled during the year ended 31 December 2013. The other amounts due from former equity holders of a subsidiary and the amount due from a non-controlling equity holder of a subsidiary were unsecured, interest-free and have been fully settled in March 2014. The amount due from Mr. Feng was unsecured, interest-free and had no fixed term of repayment at the end of each of the Relevant Periods.

20. AVAILABLE-FOR-SALE INVESTMENTS

The Group

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Structured deposits, at cost	34,300	—	—

The amounts represent short-term deposits with banks, which carry variable returns based on the return of portfolios of investments as invested by the banks. In the opinion of the Directors, the fair value of this structured deposit cannot be reliably measured because (a) the principal structured does not have quoted market prices in an active market; (b) the range of reasonable fair value estimate is significant for this structured deposit; and (c) the probabilities of the various estimates cannot be reasonably assessed and used in estimating fair value. As such, this structured deposit is stated at cost less any impairment. The deposits of approximately RMB32,000,000 and RMB2,300,000 as at 31 December 2011 were matured on 4 January 2012 and 1 February 2012, respectively.

21. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The Group

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at rates ranging from 0.36% to 0.5% per annum, from 0.35% to 0.5% per annum and 0.35% per annum, as at 31 December 2011, 2012 and 2013, respectively.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group which carry interest at rates ranging from 0.36% to 3.30% per annum, from 2.80% to 3.08% per annum and from 2.8% to 3.08% per annum, as at 31 December 2011, 2012 and 2013, respectively. As at 31 December 2011, 2012 and 2013, certain pledged deposits with an aggregate carrying amount of approximately RMB17,150,000, Nil and Nil, respectively, had been pledged to secure short-term bank loans and certain pledged deposits with an aggregate carrying amount of approximately RMB63,196,000, RMB76,542,000 and RMB59,293,000, respectively, had been pledged to secure note payables. All pledged bank deposits are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant note payables and bank borrowings. Pledged bank deposits are denominated in RMB, the functional currency of the relevant group entities.

The Group's cash and bank balances with an aggregate carrying amount of approximately RMB32,318,000, RMB41,838,000 and RMB29,963,000 as at 31 December 2011, 2012 and 2013, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

22. TRADE AND OTHER PAYABLES

The Group

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	97,628	69,172	74,159
Note payables	126,385	124,184	109,130
Deposit received in advance in respect of disposal of a subsidiary	—	22,000	—
Dividends payable	15,027	4,735	13,914
Other payables and accruals	31,792	27,332	23,380
Total trade and other payables	270,832	247,423	220,583

Included in the Group's trade payables are payables to the following related parties. The amounts were unsecured and interest-free.

	Note	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
		RMB'000	*RMB'000*	*RMB'000*
Companies controlled by a former director of a subsidiary	*(i)*	1	1,309	—

Note:

(i) The former director of a subsidiary resigned as a director of the subsidiary on 15 May 2013.

The above trade and other payables are denominated in the functional currencies of the relevant group entities.

The following is an analysis of trade payables by age, presented based on the date of invoice. The analysis below includes those classified as part of a disposal group classified as held for sale at the end of each of the Relevant Periods:

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
0 to 90 days	89,916	137,701	67,628
91 to 180 days	3,598	4,240	4,776
181 to 360 days	939	514	569
Over 360 days	3,175	1,391	1,186
	97,628	143,846	74,159

The following is an analysis of note payables by age, presented based on the date of issuance of notes. The analysis below includes those classified as part of a disposal group classified as held for sale at the end of each of the Relevant Periods:

	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000
0 to 90 days	35,220	53,965	57,000
91 to 180 days	91,165	100,109	52,130
	126,385	154,074	109,130

The average credit period on purchases of goods is ranging from 30 to 90 days from the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2011, 2012 and 2013, note payables represented bank acceptance notes issued by the Group with maturity within six months, and were secured by a charge over certain Group's pledged assets. Details of pledged assets are set out in Note 31.

23. AMOUNTS DUE TO FORMER EQUITY HOLDERS OF A SUBSIDIARY/CONTROLLING SHAREHOLDER AND MR. FENG

		The Group			The Company
	Note	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*	As at 31 December 2013 *RMB'000*
Amounts due to former equity holders of a subsidiary					
Medicon	*(i)*	—	—	64,923	5,716
Maoming Company	*(i)*	—	—	12,022	—
Shenzhen Company	*(i)*	—	—	16,027	—
Yichang Company	*(i)*	—	—	54	—
		—	—	93,026	5,716
Amounts due to Controlling Shareholder and Mr. Feng					
Mr. Yang	*(ii)*	—	—	23,835	—
Mr. Feng	*(ii)*	—	—	8,152	—
		—	—	31,987	—

Notes:

(i) As at 31 December 2013, the amounts due to Medicon and Yichang Company of approximately RMB5,716,000 and RMB54,000 respectively were cash advances in nature, unsecured, interest-free and had no fixed term of repayment. The other amounts due to former equity holders of a subsidiary with an aggregate carrying amount of approximately RMB87,256,000 represented the unsettled consideration payables to the former equity holders in respect of the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong by Easy Creator under the Reorganisation. These amounts were unsecured, interest-free and have been fully settled in March and April 2014.

(ii) As at 31 December 2013, included in the amounts due to Controlling Shareholder and Mr. Feng were the borrowings granted by Mr. Yang and Mr. Feng to Easy Creator of approximately RMB23,830,000 and RMB7,921,000 respectively for financing the partial settlement of the consideration payables to former equity holders of a subsidiary in respect of the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong by Easy Creator under the Reorganisation. The remaining balances of amounts due to Controlling Shareholder and Mr. Feng of approximately RMB5,000 and RMB231,000 were cash advances in nature. These amounts were unsecured, interest-free and had no fixed term of repayment.

24. BORROWINGS

The Group

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Secured bank loans	209,000	223,463	127,000
Unsecured bank loans	10,000	30,000	27,550
Unsecured other loans	20,000	—	—
	239,000	253,463	154,550
Denominated in:			
RMB	239,000	253,463	154,550
Carrying amount repayable:			
On demand or within one year	219,000	253,463	94,550
More than one year, but not more than two years	20,000	—	60,000
	239,000	253,463	154,550
Less: Amounts due within one year shown under current liabilities	(219,000)	(253,463)	(94,550)
Amounts due after one year shown under non-current liabilities	20,000	—	60,000

Breakdown of bank and other borrowings

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Fixed-rate borrowings	129,000	83,463	34,550
Floating-rate borrowings	110,000	170,000	120,000
	239,000	253,463	154,550

The effective interest rates on the Group's borrowings were as follows:

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	%	%	%
Fixed-rate borrowings	5.88	6.38	5.88
Floating-rate borrowings	5.66	6.71	5.98

Details of assets pledged for the bank borrowings are set out in Note 31.

25. DEFERRED TAXATION

The Group

The followings are the major deferred tax assets/(liabilities) recognised and movements thereon during the Relevant Periods:

	Undistributed earnings of PRC subsidiaries	Accrued expenses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2011	(2,582)	2,233	(349)
(Charge)/credit to profit or loss	(1,092)	285	(807)
As at 31 December 2011	(3,674)	2,518	(1,156)
Charge to profit or loss	(23)	(98)	(121)
Reclassified as held for sale	290	(698)	(408)
As at 31 December 2012	(3,407)	1,722	(1,685)
Credit to profit or loss	1,541	731	2,272
As at 31 December 2013	(1,866)	2,453	587

The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013
	RMB'000	*RMB'000*	*RMB'000*
Deferred tax assets	2,518	1,722	2,453
Deferred tax liabilities	(3,674)	(3,407)	(1,866)
	(1,156)	(1,685)	587

As at 31 December 2011, 2012 and 2013, the Group did not have any unused tax losses available for offset against future profits.

26. DISPOSAL OF SUBSIDIARIES

(a) Disposal of Hubei Mengke

On 12 November 2012, the Group entered into equity transfer agreement to dispose of its 70% equity interests in a subsidiary, Hubei Mengke, to Zhuhai Company at a cash consideration of approximately RMB22,000,000. Hubei Mengke carried out all of the Group's paper processing business in the PRC. The disposal was completed on 1 February 2013, on which date control over Hubei Mengke was passed to the acquirer.

Consideration received

	Year ended 31 December 2012 RMB'000
Deposit received in advance in respect of disposal of Hubei Mengke	22,000
Total consideration received	22,000

Analysis of assets and liabilities over which control was lost

	As at 1 February 2013 RMB'000
Assets classified as held for sale	
Property, plant and equipment	16,496
Prepaid lease payments	6,134
Deferred tax assets	698
Inventories	54,470
Trade and other receivables	80,200
Pledged bank deposits	17,445
Bank balances and cash	9,401
	184,844
Liabilities directly associated with assets classified as held for sale	
Trade and other payables	135,061
Borrowings	9,978
Current tax liabilities	1,862
Deferred tax liabilities	290
	147,191
Net assets disposed of	37,653

Loss on disposal of a subsidiary

	Year ended 31 December 2013
	RMB'000
Consideration received	22,000
Net assets disposed of	(37,653)
Non-controlling interests	9,413
Remaining 5% equity interests in Hubei Mengke classified as available-for-sale investment	1,200
Loss on disposal of a subsidiary	(5,040)

The loss on disposal is included in the loss for the year ended 31 December 2013 from discontinued operation (Note 13).

Net cash outflow on disposal of a subsidiary

	Year ended 31 December 2013
	RMB'000
Consideration for the disposal of a subsidiary	22,000
Less: Deposit received in advance in respect of the disposal of Hubei Mengke during the year ended 31 December 2012	(22,000)
Cash and cash equivalent balances disposed of	(9,401)
	(9,401)

(b) Disposal of Shenzhen Creative

On 12 August 2013, the Group disposed of its 60% equity interests in Shenzhen Creative upon its deregistration.

Consideration received

	Year ended 31 December 2013
	RMB'000
Consideration received in cash and cash equivalents	—

Analysis of assets and liabilities over which control was lost

	As at 12 August 2013
	RMB'000
Other receivables	10
Net assets disposed of	10

Loss on disposal of a subsidiary

	Year ended 31 December 2013 *RMB'000*
Consideration received and receivable	—
Net assets disposed of	(10)
Non-controlling interests	(80)
Loss on disposal of a subsidiary	(90)

Net cash inflow/(outflow) on disposal of a subsidiary

	Year ended 31 December 2013 *RMB'000*
Consideration received in cash and cash equivalents	—
Less: cash and cash equivalent balances disposed of	—
	—

27. PAID-IN CAPITAL/SHARE CAPITAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law on 5 August 2013 with an initial authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each and 1 share was issued thereafter.

For the purpose of the preparation of the combined statements of financial position, the balance of share capital as at 1 January 2011, 31 December 2011 and 2012 represented the combined paid-in capital of Hubei Golden Three Gorges and Dangyang Liantong ultimately held by Mr. Yang and Mr. Feng and the balance of share capital as at 31 December 2013 represented the combined issued and fully paid share capital of the Company and Giant Harmony.

Details of movements of share capital of the Company is as follow:

	Number of shares	Share capital *HK$*
Authorised:		
Ordinary shares of HK$0.01 each		
As at 5 August 2013 (date of incorporation) and as at 31 December 2013	38,000,000	380,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 5 August 2013 (date of incorporation) and as at 31 December 2013	1	0.01

	As at 31 December 2013 *RMB'000*
Shown on the statement of financial position as at 31 December 2013	—

28. RESERVES

The Group and the Company

(a) Special reserve comprise of:

(i) An amount of approximately RMB8,798,000, being the difference between the paid-in capital of a subsidiary, Hubei Golden Three Gorges, and the aggregate amount of the cash capital contribution and the fair value of the property, plant and equipment invested into Hubei Golden Three Gorges by its former equity holders;

(ii) An amount of approximately RMB2,009,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of approximately RMB5,300,000 in respect of the acquisition of additional 17% equity interests in Dangyang Liantong by Medicon on 29 June 2012. The consideration of approximately RMB5,300,000 was treated as deemed contribution from the Controlling Shareholder; and

(iii) An amount of approximately RMB43,378,000 represented the difference between (i) the aggregate consideration payable by Easy Creator to former equity holders of a subsidiary for the acquisition of their respective equity interests in Hubei Golden Three Gorges and Dangyang Liantong pursuant to the Reorganisation (Note 1) and (ii) the aggregate amount of paid-in capital of Hubei Golden Three Gorges and Dangyang Liantong attributable to the former equity holders of these entities.

(b) PRC statutory reserve

In accordance with the PRC Company Law and the relevant Articles of Association, the PRC subsidiaries of the Company are required to appropriate amount equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to the PRC statutory surplus reserve. Additional appropriation to the reserve are decided by their board of directors annually.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation is not required. According to the Company Law of the PRC, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion.

The Company

The movement in the reserve of the Company was as follows:

	Year ended 31 December 2013 *RMB'000*
As at 5 August 2013 (date of incorporation)	—
Loss for the period	4,819
As at 31 December 2013	4,819

29. RETIREMENT BENEFIT PLANS

The employees of the PRC subsidiaries are members of state-managed retirement benefit scheme operated by the PRC Government. The PRC subsidiaries are required to contribute a certain percentage of payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions.

The Group made total contributions to the retirement schemes of approximately RMB4,560,000, RMB5,240,000 and RMB5,684,000 for the years ended 31 December 2011, 2012, 2013, respectively.

30. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Details of outstanding balances with related parties of the Group at the end of each of the Relevant Periods are set out in Notes 18, 19, 22 and 23.

(b) Transactions with related parties

	Note	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000
Sales of goods to companies controlled by a former director of a subsidiary	*(i)*	8,097	10,001	410
Subcontracting fee to a company controlled by a former director of a subsidiary	*(i)*	—	1,309	—
Interests income arising from loan to a former equity holder of a subsidiary		—	1,500	—

Notes:

(i) These companies are controlled by a former director of a subsidiary and he resigned as a director of the subsidiary on 15 May 2013.

(ii) The Group had entered into the above transactions with the related parties based on the terms mutually agreed by the parties.

(c) Compensation of key management personnel

The emoluments of the Company's directors, who are also identified as members of key management of the Group, are set out in Note 10.

31. PLEDGE OF ASSETS AND CORPORATE GUARANTEES

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	As at 31 December 2011 RMB'000	As at 31 December 2012 RMB'000	As at 31 December 2013 RMB'000
Prepaid lease payments	23,573	29,223	18,572
Property, plant and equipment	180,694	183,511	145,394
Inventories	72,500	72,500	—
Trade receivables	100,000	130,352	117,310
Pledged bank deposits	80,346	76,542	59,293
	457,113	492,128	340,569

At the end of each of the Relevant Periods, the aggregate corporate guarantees provided by subsidiaries in respect of the banking facilities granted to the Group were approximately RMB244,293,000, RMB248,187,000 and RMB187,065,000.

32. COMMITMENTS

(a) Operating leases — the Group as lessee

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Minimum lease payments paid under operating leases			
— Warehouse	455	—	—
— Staff quarter	—	—	655

At the end of each of the Relevant Periods, the Group had commitments for future minimum lease payments under non-cancelable operating leases which fall due as follows:

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Within one year	455	—	655
In the second to fifth years inclusive	—	—	—
Over five years	—	—	—
	455	—	655

Operating lease payments related to warehouse facilities and staff quarter with average lease term of one year and the rentals were fixed over the respective leases.

(b) Capital commitment

	As at 31 December 2011 *RMB'000*	As at 31 December 2012 *RMB'000*	As at 31 December 2013 *RMB'000*
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the Financial Information	106	1,200	151

33. SUB-CONTRACTING ARRANGEMENTS

During the Relevant Periods, certain sub-contracting arrangements made by the Group were not in compliance with the terms and conditions under the sales contracts with its customers and the Group is therefore subject to possible obligation arising from these non-compliance matters. The Group has been advised by its legal advisor that (i) no claim against the Group in respect of these non-compliance matters has been occurred since the respective dates of these sales contracts to the date of this report and (ii) it has good grounds to defend any claims from its customers if such claims arose. The Directors believe that the Group's defend to any potential claims arising from these non-compliance matters will be meritorious.

34. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which are not reflected in the combined statements of cash flows:

(i) Dividends payable to former equity holders of a subsidiary with aggregate carrying amounts of approximately RMB10,893,000, RMB31,414,000 and RMB72,019,000 were settled by netting off the dividends payable against the amounts due from the respective former equity holders during the years ended 31 December 2011, 2012 and 2013, respectively.

(ii) The Group settled the consideration for the acquisition of certain property, plant and equipment with aggregate carrying amounts of approximately RMB4,680,000, RMB5,117,000 and RMB6,250,000 by bank acceptance notes during the years ended 31 December 2011, 2012 and 2013, respectively.

(iii) The Group settled the deposits for the acquisition of property, plant and equipment with aggregate carrying amounts of approximately RMB2,904,000, Nil and RMB2,135,000 by bank acceptance notes during the years ended 31 December 2011, 2012 and 2013, respectively.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies 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 during the Relevant Periods.

The capital structure of the Group consists of net debt, which include trade and other payables, amount due to former equity holders of a subsidiary, amounts due to Controlling Shareholder and Mr. Feng and borrowings, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The management reviews the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of the capital. The management will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group			**The Company**
	As at 31 December 2011	**As at 31 December 2012**	**As at 31 December 2013**	**As at 31 December 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	325,435	390,885	288,482	—
Available-for-sale investments	34,300	—	—	—
	359,735	390,885	288,482	—
Financial liabilities				
Amortised cost	503,542	498,383	490,320	5,716

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from Mr. Feng, amounts due from former equity holders of a subsidiary, amount due from a non-controlling equity holder of a subsidiary, available-for-sale investments, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to former equity holders of a subsidiary, amounts due to Controlling Shareholder and Mr. Feng, and borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effectively manner.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its floating-rate bank balances and bank borrowings. The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Loan Rates offered by the People's Bank of China on the Group's bank borrowings. The Company has no material interest rate risk exposure.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates on floating-rate bank borrowings. The analysis is prepared assuming the floating-rate bank borrowings outstanding at the end of each of the Relevant Periods were outstanding for the whole year. As the management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the low level of bank interest rate, bank balances are excluded from sensitivity analysis. A 100 basis points increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been increased/decreased by 100 basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB962,000, RMB1,287,000 and RMB1,451,000 for the years ended 31 December 2011, 2012 and 2013, respectively. This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

Currency risk

The Group's transactions were mainly conducted in RMB, the functional currency of its operating subsidiaries, and their major receivables and payables are denominated in RMB. Accordingly, the Group currently does not have a foreign currency policy and no sensitivity analysis has been presented.

Credit risk management

At the end of each of the Relevant Periods, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

The Group has concentration of credit risk as 44%, 33% and 50% of the total trade receivables was due from the Group's five largest customers as at 31 December 2011, 2012 and 2013, respectively.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monetary procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each of the Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are either state-owned banks or banks with high credit ratings located in the PRC.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenant.

The Group relies on bank borrowings as a significant source of liquidity. The Group has available unutilised bank borrowings facilities of approximately RMB105,962,000, RMB180,000,000 and RMB185,585,000 as at 31 December 2011, 2012 and 2013, respectively.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest cash flows are floating rate, the undiscounted amount is derived from interest rate at the end of each of the Relevant Periods.

Liquidity table

The Group Non-derivative financial liabilities	**Weighted average interest rate**	**On demand or less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2011						
Trade and other payables	—	270,832	—	—	270,832	270,832
Borrowings	5.75%	228,765	21,481	—	250,246	239,000
		499,597	21,481	—	521,078	509,832
As at 31 December 2012						
Trade and other payables	—	247,423	—	—	247,423	247,423
Borrowings	6.59%	262,393	—	—	262,393	253,463
		509,816	—	—	509,816	500,886
As at 31 December 2013						
Trade and other payables	—	220,583	—	—	220,583	220,583
Amounts due to former equity holders of a subsidiary	—	93,026	—	—	93,026	93,026
Amounts due to Controlling Shareholder and Mr. Feng	—	31,987	—	—	31,987	31,987
Borrowings	6.06%	103,297	60,535	—	163,832	154,550
		448,893	60,535	—	509,428	500,146

The Company Non-derivative financial liabilities	**Weighted average interest rate**	**On demand or less than 1 year**	**1 to 5 years**	**More than 5 years**	**Total undiscounted cash flows**	**Total carrying amount**
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2013						
Amount due to former equity holder of a subsidiary	—	5,716	—	—	5,716	5,716

37. Information about material non-controlling interest

The following table lists out the information relating to the Group's subsidiaries which have material non-controlling interests (NCI) is set out below. The summarised financial information in respect of the Group's material NCI is set out below.

Hubei Golden Three Gorges	**As at 31 December 2011** *RMB'000*	**As at 31 December 2012** *RMB'000*	**As at 31 December 2013** *RMB'000*
NCI percentage	17.14%	17.14%	17.14%
Current assets	471,181	619,916	364,368
Non-current assets	263,091	233,142	203,117
Current liabilities	(491,930)	(621,185)	(318,866)
Non-current liabilities	(23,674)	(3,407)	(61,866)
Net assets	218,668	228,466	186,753
Carrying amount of NCI	49,563	44,565	29,555
Revenue	426,248	438,533	495,773
Profit for the year	35,497	47,709	48,817
Total comprehensive income	—	—	—
Profit allocated to NCI	7,037	8,808	8,237
Dividend paid to NCI	(4,048)	(6,497)	(13,914)
Cash flows from operating activities	88,723	48,230	92,488
Cash flows from investing activities	(115,107)	(16,502)	6,823
Cash flows from financing activities	30,029	(22,208)	(111,554)

C. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the directors of the Company during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the directors of the Company for the year ending 31 December 2014, excluding discretionary bonus, is approximately RMB465,000 (equivalent to HK$586,000).

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2013:

(a) On 30 April 2014, the companies comprising the Group underwent and completed the Reorganisation in preparation for listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. Further details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to the Prospectus.

(b) On 6 June 2014, written resolutions of shareholders of the Company were passed to approve the matters set out in the paragraph headed "Written resolutions of our Shareholders passed on 6 June 2014" in Appendix V to the Prospectus.

(c) Pursuant to a shareholder's written resolution passed on 30 April 2014, the Company allotted and issued 9,304 ordinary shares of HK$0.01 each and 695 ordinary shares of HK$0.01 each in the share capital of the Company to Spearhead Leader Limited and Star Glide Limited, respectively, credited as fully paid.

(d) Pursuant to shareholders' written resolution passed on 6 June 2014, a share option scheme has been conditionally adopted by the Company (the "Share Option Scheme"). The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" set out in Appendix V to the Prospectus. No option has been granted under the Share Option Scheme up to the date of this report.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group have been prepared in respect of any period subsequent to 31 December 2013.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Jonathan T.S. Lai
Practising Certificate Number: P04165
Hong Kong

The information set forth in this appendix does not form part of the accountants' report prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets of the Group attributed to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Share Offer on combined net tangible assets as at 31 December 2013 as if it had taken place on 31 December 2013. The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 or any future date following the Share Offer. It is prepared based on the audited combined net assets of the Group attributable to owners of the Company as at 31 December 2013 as set out in the Accountants' Report contained in Appendix I to this prospectus and adjusted as described below. The unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013(1)	**Estimated net proceeds from the Share Offer(2)**	**Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company**	**Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share(3)**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$(4)*
Based on an Offer Price of HK$1.46 per Offer Share	33,450	62,401	95,851	0.32	0.40
Based on an Offer Price of HK$1.00 per Offer Share	33,450	35,853	69,303	0.23	0.29

Notes:

(1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Share Offer are based on 75,000,000 Shares to be issued under the Share Offer and the Offer Price of HK$1.46 per Offer Share and HK$1.00 per Offer Share, being the higher end and lower end of the stated Offer Price range, after deduction of the underwriting fees and other related expenses (excluding approximately RMB6.7 million listing-related expenses which have been accounted for prior to 31 December 2013)

payable by the Company in connection with the Share Offer. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars into Renminbi at the rate of HK$1.00 to RMB0.7933. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is calculated based on 75,000,000 Shares expected to be in issue immediately following the completion of the Share Offer. It does not take into account of any Shares that may be allotted and issued upon the exercise of any options that have been granted or may be granted under the Share Option Scheme, or any Shares that may be issued or repurchase pursuant to the Company's general mandate.

(4) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of HK$1.00 to RMB0.7933. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to the audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2013 to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2013.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountant, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this prospectus.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

17 June 2014

The Directors
Jia Yao Holdings Limited

Dear Sirs

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Jia Yao Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of unaudited pro forma statement of adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2013 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 17 June 2014 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed public offer and placing of shares of the Company (the "Share Offer") on the Group's financial position as at 31 December 2013 as if the Share Offer had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for each of the three years ended 31 December 2013, on which an accountant's report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the offering of shares of the Company on unadjusted financial information of the Group as if the transaction had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction at 31 December 2013 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Jonathan T.S. Lai
Practising Certificate Number: P04165
Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Castores Magi (Hong Kong) Limited, an independent valuer, in connection with their valuations of the property interests of the Group as at 30 April, 2014.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS (GENERAL PRACTICE)
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

17 June, 2014

The Directors
Jia Yao Holdings Limited
Suite 3212, 32nd Floor
Tower One, Times Square
No. 1 Matheson Street
Causeway Bay
Hong Kong

Dear Sirs,

In accordance with your instruction to value the properties in which Jia Yao Holdings Limited (the "Company") and its subsidiaries (together the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of value of the relevant properties as at 30 April, 2014 ("valuation date").

Our valuations of the property interests are our opinion of the Market Value which we would define as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuations of the property interests have been made on the assumption that the owner sells the properties on the market in their existing states without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties.

The land use rights of the properties in Group I and Group II have been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuations of buildings of the properties in Group I are based on the method of Depreciated Replacement Cost which is used for the valuation of specialized properties. It is an application (method) of the cost approach that may be used in arriving at the value of specialized properties for financial reporting purposes. Depreciated Replacement Cost may be the more applicable approach when comparable sales data is insufficient but sufficient market data exists concerning costs and accrued depreciation. As an application of the cost approach, it is based on the principle of substitution. Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current costs of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The application of Depreciated Replacement Cost is subject to adequate potential profitability of the business paying due regards to the total assets employed. Besides, the market value of the buildings derived by Depreciated Replacement Cost only applies to the buildings as a unique interest, and no piecemeal transaction of the buildings of the properties are assumed.

We have not attributed any commercial value to the rented properties in Group III mainly due to the prohibition against assignment or sub-letting or lack of substantial profit rent.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the property interests regarding major approvals, consents and licences required in the People's Republic of China (the "PRC") is set out as follows:

Document/Approval	**Property 1 in Group I**	**Property 2 in Group I**	**Property 1 in Group II**
State-owned Land Use Rights Certificate	Yes	Yes	Yes
Building Ownership Certificate	Yes	Yes	Not applicable

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

The undersigned inspected the exterior and where possible, the interior of the properties in the PRC during the period from 21 to 22 February, 2014 and in Hong Kong on 25 March, 2014, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey, investigation or examination has been made. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties including State-owned Land Use Rights Certificates, Building Ownership Certificates, miscellaneous rights certificates and the PRC legal opinion, etc. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. However, we have made reference to the opinion given by the Company's PRC legal advisers on the PRC laws, Jingtian & Gongcheng (北京市競天公誠律師事務所) in respect of the Group's title to the properties.

The scope of valuations has been determined with reference to the property list provided by the Group. The properties on the list have been included in this valuation certificate. The Group has confirmed to us that it has no property interests other than those specified on the list supplied to us.

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Renminbi (RMB).

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuations, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Group or the values reported.

Our valuations are summarized below and our valuation certificate is attached.

Yours faithfully,
For and on behalf of
Castores Magi (Hong Kong) Limited
Ernest Cheung Wah Fu
Member of China Institute of Real Estate Appraisers and Agents
B.Sc. MRICS MHKIS RPS(GP) MCIArb
Director

Note: *Ernest Cheung Wah Fu is a Registered Professional Surveyor (General Practice) who has over 21 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuer for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.*

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

	Property	Capital value in existing state as at 30 April, 2014 *RMB*	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 April, 2014 *RMB*
1.	Five adjoining parcels of land and various buildings erected thereon located at No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	55,830,000	82.86%	46,260,738
2.	Two adjoining parcels of land and various buildings erected thereon located at No. 1 Hangkong Road, Dangyang, Hubei Province, The PRC.	19,080,000	87.145%	16,627,267
	Sub-Total:	74,910,000		62,888,005

Group II — Property interest contracted to be disposed of by the Group in the PRC

	Property	Capital value in existing state as at 30 April, 2014 *RMB*	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 April, 2014 *RMB*
1.	A parcel of industrial land located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	6,970,000	82.86%	5,775,342
	Sub-Total:	6,970,000		5,775,342

Group III — Property interests leased by the Group in the PRC and Hong Kong

	Property	Capital value in existing state as at 30 April, 2014 *RMB*	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 April, 2014 *RMB*
1.	125 dormitory units in a dormitory building located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	No Commercial Value	82.86%	No Commercial Value
2.	Suite 3212 on 32nd Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong.	No Commercial Value	100%	No Commercial Value
	Sub-Total:	Nil		Nil
	Grand Total:	**81,880,000**		**68,663,347**

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April, 2014 *RMB*
1.	Five adjoining parcels of land and various buildings erected thereon located at No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	The property comprises five adjoining parcels of land with 13 buildings erected thereon. The buildings are 1 to 3 storeys in height and were completed from 2001 to 2012. The five parcels of land on which the buildings situated have a total site area of 57,050.44 sq. m. The property has a total gross floor area of 31,713.19 sq. m. (the ten Building Ownership Certificates mentioned in *Notes 2* and *3* below cover a total gross floor area of 31,453.3 sq. m. and the remaining 259.89 sq. m. is not covered by Building Ownership Certificate). The property is held under five land use rights for a term up to 16 May, 2050, 26 May, 2050, 26 May, 2050, 2 November, 2059 and 30 December, 2060, respectively, for industrial purpose.	The property is currently occupied by the Group for production, storage and office purposes.	55,830,000 of which 82.86% was attributable to the Group: 46,260,738

Notes:

1. The property is subject to the following five State-owned Land Use Rights Certificates:

No.	Land Use Rights Certificate No.	Land Use Rights Holder	Designated Use	Site Area (sq. m.)	Land Use Term Expiry Date
1	Yi Kai Guo Yong (2000) Zi No. 100204015 (宜開國用(2000)字第100204015號)	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	Industrial	15,747.41	26 May, 2050
2	Yi Shi Guo Yong (2004) No. 100204016-1 (宜市國用(2004)第100204016-1號)	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	Industrial	10,180.49	16 May, 2050

No.	Land Use Rights Certificate No.	Land Use Rights Holder	Designated Use	Site Area (sq. m.)	Land Use Term Expiry Date
3	Yi Shi Guo Yong (2010) No. 100204016-2 (宜市國用(2010) 第100204016-2號)	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	Industrial	4,895.00	26 May, 2050
4	Yi Shi Guo Yong (2012) No. 100204017-1 (宜市國用(2012) 第100204017-1號)	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	Industrial	9,464.06	2 November, 2059
5	Yi Shi Guo Yong (2012) No. 100204017-2 (宜市國用(2012) 第100204017-2號)	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	Industrial	16,763.48	30 December, 2060

2. The property is subject to two Building Ownership Certificates — Yi Shi Fang Quan Zheng Yi Chang Kai Fa Qu Zi Nos. 0163693 and 0186383 (房屋所有權證 — 宜市房權證宜昌開發區字第0163693及0186383號) issued by Yichang City Real Estate Administration Bureau (宜昌市房產管理局). According to these two certificates, the owner of the buildings is Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company. These two buildings have a total gross floor area of 6,324.4 sq.m.

3. The property is subject to the other eight Building Ownership Certificates — Yi Shi Fang Quan Zheng Xi Ling Qu (Kai) Zi Nos. 0384367, 0384379, 0384390, 0384391, 0384392, 0384855, 0385493 and 0385494 (房屋所有權證 — 宜市房權證西陵區(開)字第0384367, 0384379, 0384390, 0384391, 0384392, 0384855, 0385493及0385494號) issued by Yichang City Real Estate Administration Bureau (宜昌市房產管理局). According to these eight certificates, the owner of the buildings is Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company. The nine buildings under these eight Building Ownership Certificates have a total gross floor area of 25,128.9 sq.m.

4. The property is subject to the following pledges:

   (i) Pursuant to a Maximum Amount Mortgage Contract — Gong Gao Di Zi No. 61012012297899 (最高額抵押合同 — 公高抵字第61012012297899號) dated 13 July, 2012 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and China Minsheng Banking Corp., Ltd., Yichang Branch (中國民生銀行股份有限公司宜昌分行), the former party pledged the land use rights having a site area of 4,895 sq.m. (held under State-owned Land Use Rights Certificate — Yi Shi Guo Yong (2010) No. 100204016-2 (國有土地使用證 — 宜市國用(2010)第100204016-2號)) in a maximum pledged amount of RMB80,000,000 for a term commencing from 16 July, 2012 to 16 July, 2015. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Ta Xiang (2012) No. 091 (他項權利證 — 宜市他項(2012)第091號);

   (ii) Pursuant to a Maximum Amount Mortgage Contract — Gong Gao Di Zi No. 61012012297898 (最高額抵押合同 — 公高抵字第61012012297898號) dated 13 July, 2012 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and China Minsheng Banking Corp., Ltd., Yichang Branch (中國民生銀行股份有限公司宜昌分行), the former party pledged the land use rights having a site area of 16,763.48 sq.m. (held under State-owned Land Use Rights Certificate — Yi Shi Guo Yong (2012) No. 100204017-2 (國有土地使用證 — 宜市國用(2012)第100204017-2號)) in a maximum pledged amount of

RMB80,000,000 for a term commencing from 16 July, 2012 to 16 July, 2015. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Ta Xiang (2012) No. 090 (他項權利證 — 宜市他項(2012)第090號);

(iii) Pursuant to a Maximum Amount Mortgage Contract — 2013 Shou Di Yi Fen Ying 1031 No. 0001-1 (最高額抵押合同 — 2013授抵宜分營1031第0001-1號) dated 31 October, 2013 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and Hubei Bank Corporation Limited Yichang Branch (湖北銀行股份有限公司宜昌分行), the former party pledged the land use rights having a site area of 9,810.85 sq. m. (held under State-owned Land Use Rights Certificate — Yi Kai Guo Yong (2000) Zi No. 100204015 (國有土地使用證 — 宜開國用(2000)字第100204015號) in a maximum pledged amount of RMB50,000,000 for a term commencing from 6 November, 2013 to 30 April, 2016. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Ta Xiang (2013) No. 184 (他項權利證 — 宜市他項(2013)第184號);

(iv) Pursuant to a Maximum Amount Mortgage Contract — Year 2013 Yi Shou Di Zi No. 1023-1 (最高額抵押合同 — 2013年宜授抵字第1023-1號) dated 24 October, 2013 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and China Merchants Bank Co., Ltd., Yichang Branch (招商銀行股份有限公司宜昌分行), the former party pledged the land use rights having a total site area of 10,741 sq. m. (held under State-owned Land Use Rights Certificates — Yi Shi Guo Yong (2004) No. 100204016-1 and Yi Shi Guo Yong (2012) No. 100204017-1 (國有土地使用證 — 宜市國用(2004)第100204016-1號及宜市國用(2012)第100204017-1號) in a maximum pledged amount of RMB40,000,000 for a term commencing from 28 October, 2013 to 28 October, 2016. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Ta Xiang (2013) No. 164 (他項權利證 — 宜市他項(2013)第164號);

(v) Pursuant to a Maximum Amount Mortgage Contract — 2013 Shou Di Yi Fen Ying 1031 No. 0001-2 (最高額抵押合同 — 2013授抵宜分營1031第0001-2號) dated 31 October, 2013 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and Hubei Bank Corporation Limited Yichang Branch (湖北銀行股份有限公司宜昌分行), the former party pledged the building ownership rights having a total gross floor area of 11,759.99 sq. m. (held under Building Ownership Certificates — Yi Shi Fang Quan Zheng Yi Chang Kai Fa Qu Zi No. 0163693 and Yi Shi Fang Quan Zheng Xi Ling Qu (Kai) Zi Nos. 0384367, 0385493 and 0385494 (房屋所有權證 — 宜市房權證宜昌開發區字第0163693號及宜市房權證西陵區(開)字第0384367, 0385493及0385494號) in a maximum pledged amount of RMB50,000,000 for a term commencing from 31 October, 2013 to 30 April, 2016. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Fang Ta Zheng Yi Chang Kai Fa Qu Zi No. 0085710 (他項權利證 — 宜市房他證宜昌開發區字第0085710號); and

(vi) Pursuant to a Maximum Amount Mortgage Contract — Year 2013 Yi Shou Di Zi No. 1023-2 (最高額抵押合同 — 2013年宜授抵字第1023-2號) dated 24 October, 2013 made between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) and China Merchants Bank Co., Ltd., Yichang Branch (招商銀行股份有限公司宜昌分行), the former party pledged the building ownership rights having a total gross floor area of 9,601.08 sq. m. (held under Building Ownership Certificates — Yi Shi Fang Quan Zheng Yi Chang Kai Fa Qu Zi No. 0186383 and Yi Shi Fang Quan Zheng Xi Ling Qu (Kai) Zi Nos. 0384379, 0384390, 0384391 and 0384392 (房屋所有權證 — 宜市房權證宜昌開發區字第0186383號及宜市房權證西陵區(開)字第0384379, 0384390, 0384391及0384392號) in a maximum pledged amount of RMB40,000,000 for a term commencing from 28 October, 2013 to 28 October, 2016. This pledge was registered by Miscellaneous Rights Certificate — Yi Shi Fang Ta Zheng Yi Chang Kai Fa Qu Zi No. 0084948 (他項權利證 — 宜市房他證宜昌開發區字第0084948號).

5. Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) is a sino-foreign joint venture company established on 15 August, 1992 and its current shareholders include:

Shareholder	Investment Amount *(RMB)*	Equity/Profit Sharing %
Hubei Three Gorges Tobacco Co., Ltd. (湖北三峽煙草有限公司)	13,500,000	17.14%
Easy Creator Limited (宜佳有限公司), a wholly-owned subsidiary of the Company	65,282,100	82.86%
Total:	78,782,100	100%

6. It is stated in the legal opinion given by the Company's PRC legal advisers, Jingtian & Gongcheng (北京市競天公誠律師事務所), *inter alia*, that:

(i) Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) ("Golden Three Gorges") is a sino-foreign joint venture company established on 15 August 1992. Based on the Enterprise Legal Person Business Licence (企業法人營業執照) issued on 21 March, 2014 by Yichang Administration for Industry and Commerce (宜昌市工商行政管理局), the registered capital of Golden Three Gorges is RMB78,782,100 and the shareholders of Golden Three Gorges comprise Hubei Three Gorges Tobacco Co., Ltd. (湖北三峽煙草有限公司) ("Party A") and Easy Creator Limited (宜佳有限公司) ("Party B"). The capital contribution amount and percentage of equity interests for Party A and Party B are RMB13,500,000 (17.14%) and RMB65,282,100 (82.86%), respectively.

Pursuant to clause no. 5 of the joint venture agreement dated 10 August 2013 entered into between Party A and Party B, the sharing of profit and loss shall be based on the respective ratio of capital contribution to the registered capital and the resolutions of the board of directors.

Up to the date of the legal opinion, Golden Three Gorges already obtained all the licences, certificates and approvals to conduct the types of business stated in the business scope of the Enterprise Legal Person Business Licence;

(ii) Golden Three Gorges has lawfully and effectively obtained the land use rights of five parcels of land held under State-owned Land Use Rights Certificates (國有土地使用證) — Yi Kai Guo Yong (2000) Zi No. 100204015 (宜開國用 (2000) 字第100204015號), Yi Shi Guo Yong (2004) No. 100204016-1 (宜市國用 (2004)第100204016-1號), Yi Shi Guo Yong (2010) No. 100204016-2 (宜市國用 (2010) 第100204016-2號), Yi Shi Guo Yong (2012) No. 100204017-1 (宜市國用 (2012) 第100204017-1號) and Yi Shi Guo Yong (2012) No. 100204017-2 (宜市國用 (2012) 第100204017-2號). Golden Three Gorges is the unique lawful user of the five parcels of land and had obtained all the necessary permits and certificates from relevant department of the PRC Government regarding the rights to use of the five parcels of land;

(iii) Within the land use rights term, Golden Three Gorges could occupy, use, lease, transfer, mortgage or lawfully dispose (in other modes) the land use rights;

(iv) Apart from the pledges mentioned in *Note 4(i)* to *4(iv)* above, the land use rights of the five parcels of land were not subject to any guarantees, pledges, seizure or other forms of miscellaneous rights;

(v) Golden Three Gorges has lawfully and effectively obtained the ownership of the buildings held under ten Building Ownership Certificates (房屋所有權證) — Yi Shi Fang Quan Zheng Yi Chang Kai Fa Qu Zi Nos. 0163693 and 0186383 (宜市房權證宜昌開發區字第0163693及0186383號), Yi Shi Fang Quan Zheng Xi Ling Qu (Kai) Zi Nos. 0384367, 0384379, 0384390-0384392, 0384855, 0385493 and 0385494 (宜市房權證西陵區(開)字第0384367, 0384379, 0384390-0384392, 0384855, 0385493及0385494號). These ten Building Ownership Certificates covered a total gross floor area of 31,453.3 sq. m.. Golden Three Gorges is the unique legal owner possessing the rights to occupy, use, lease, transfer, mortgage or lawfully dispose (in other modes) the building ownership within the land use terms of the land;

(vi) Apart from the pledges mentioned in *Note 4 (v) to 4(vi)* above, the building ownership rights of the buildings were not subject to any guarantees, pledges, seizure or other forms of miscellaneous rights; and

(vii) Based on the confirmation of Golden Three Gorges, two buildings of the property (having a total gross floor area of about 259.89 sq. m.) have no building ownership certificate due to the reason that they are not built according to Construction Works Planning Permit (建築工程規劃許可證). These include a boiler room and a warehouse and their gross floor area are 157.69 sq. m. and 102.2 sq. m., respectively. According to the PRC Urban and Rural Planning Law (中華人民共和國城鄉規劃法), these two buildings may be subject to penalties, take corrective measures within specified time and demolition within specified time. The use of these two buildings by Golden Three Gorges may not be confirmed and protected by the PRC laws. These two buildings cannot be pledged, transferred or leased before obtaining the Building Ownership Certificate.

Based on the confirmation letter issued by Yichang City Planning Bureau, Gao Xin District Sub-Bureau (宜昌市規劃局高新區分局) (the "Bureau") on 24 March, 2014, the two buildings were located within the factory area of Golden Three Gorges and did not create any obstacles to the community or pose any threat. Currently, the Bureau had accepted the application submission from Golden Three Gorges regarding planning application of the two buildings. Besides, the Bureau advised that no actions shall be taken to impose administrative penalties, demolition within specified time or forfeiture of the buildings. There is no obstacle for Golden Three Gorges to apply for such planning application.

Based on the Bureau's confirmation letter and the confirmation from the directors of Golden Three Gorges, the two buildings mentioned above have little effect on the production and operation of Golden Three Gorges. Therefore, the two buildings having no building ownership certificate shall have no material adverse effect on the normal production and operation of Golden Three Gorges.

7. The 4th parcel of land mentioned in *Note 1* above was acquired by Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) through an auction held on 12th October, 2009 at a consideration of RMB4,548,000. The 5th parcel of land mentioned in *Note 1* above was acquired by Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) through an auction held on 19th November, 2010 at a consideration of RMB4,830,000.

8. A breakdown of our opinion of value is set out as follows:

	Capital value in existing state as at 30 April, 2014 *RMB*	**Interest attributable to the Group**	**Capital value in existing state attributable to the Group as at 30 April, 2014** *RMB*
Land use rights	14,980,000	82.86%	12,412,428
Buildings	40,850,000	82.86%	33,848,310
Total:	55,830,000		46,260,738

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April, 2014 *RMB*
2.	Two adjoining parcels of land and various buildings erected thereon located at No. 1 Hangkong Road, Dangyang, Hubei Province, The PRC.	The property comprises two adjoining parcels of land with 11 buildings erected thereon. The buildings are 1 to 2 storeys in height and were completed from 2004 to 2006. The two parcels of land on which the buildings situated have a total site area of 43,873.19 sq.m. The property has a total gross floor area of 12,272.78 sq.m. (the eleven Building Ownership Certificates mentioned in *Note 2* below cover a total gross floor area of 12,272.78 sq.m.). The property is held under two land use rights both for a term up to 6 August, 2052 for industrial purpose.	The property is currently occupied by the Group for production, storage, dormitory and office purposes.	19,080,000 of which 87.145% was attributable to the Group: 16,627,267

Notes:

1. The property is subject to the following two State-owned Land Use Rights Certificates:

No.	Land Use Rights Certificate No.	Land Use Rights Holder	Designated Use	Site Area (sq. m.)	Land Use Term Expiry Date
1	Dangyang Guo Yong (2004) No. 090308002-1 (當陽國用(2004)第090308002-1號)	Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司), a 87.145%-owned subsidiary of the Company	Industrial	23,867.79	6 August, 2052
2	Dangyang Guo Yong (2004) No. 090207022 (當陽國用(2004)第090207022號)	Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司), a 87.145%-owned subsidiary of the Company	Industrial	20,005.4	6 August, 2052

2. The property is subject to eleven Building Ownership Certificates — Dang Shi Fang Quan Zheng Yu Yang Zi Nos. 00021384–00021392, 00021668 and 00021669 (房屋所有權證 — 當市房權證玉陽字第00021384–00021392, 00021668及00021669號) issued by Dangyang City People's Government (當陽市人民政府). According to these eleven certificates, the owner of the buildings is Dangyang Golden Three Gorges Liantong Printing Co., Ltd (當陽金三峽聯通印務有限公司), a 87.145%-owned subsidiary of the Company. These eleven buildings have a total gross floor area of 12,272.78 sq.m.

3. The property is subject to the following pledges:

(i) Pursuant to a Maximum Amount Mortgage Contract — Year 2013 Yi Shou Di Zi No. 1023-3 (最高額抵押合同 — 2013年宜授抵字第1023-3號) dated 24 October, 2013 made between Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司) and China Merchants Bank Co., Ltd., Yichang Branch (招商銀行股份有限公司宜昌分行), the former party pledged the land use rights having a total site area of 43,873.19 sq. m. (held under State-owned Land Use Rights Certificates — Dangyang Guo Yong (2004) No. 090308002-1 and Dangyang Guo Yong (2004) No. 090207022 (國有土地使用證 — 當陽國用(2004)第090308002-1號及當陽國用(2004)第090207022號) in a maximum pledged amount of RMB40,000,000 for a term commencing from 28 October, 2013 to 28 October, 2016. This pledge was registered by Miscellaneous Rights Certificate — Dangyang Ta Xiang (2013) No. 118 (他項權利證 — 當陽他項(2013)第118號); and

(ii) Pursuant to a Maximum Amount Mortgage Contract — Year 2013 Yi Shou Di Zi No. 1023-4 (最高額抵押合同 — 2013年宜授抵字第1023-4號) dated 24 October, 2013 made between Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司) and China Merchants Bank Co., Ltd., Yichang Branch (招商銀行股份有限公司宜昌分行), the former party pledged the building ownership rights having a total gross floor area of 12,272.78 sq. m. (held under Building Ownership Certificates — Dang Shi Fang Quan Zheng Yu Yang Zi Nos. 00021384-00021392, 00021668 and 00021669 (房屋所有權證 — 當市房權證玉陽字第00021384-00021392, 00021668及00021669號) in a maximum pledged amount of RMB40,000,000 for a term commencing from 28 October, 2013 to 28 October, 2016. This pledge was registered by Miscellaneous Rights Certificate — Dang Shi Fang Ta Zheng Yu Yang Zi No. 2000549 (他項權利證 — 當市房他證玉陽字第2000549號).

4. Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司) is a sino-foreign joint venture company established on 12 May, 2004 and its current shareholders include:

Shareholder	**Investment Amount** *(RMB)*	**Equity/Profit Sharing** *%*
Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company	30,000,000	75%
Easy Creator Limited (宜佳有限公司), a wholly-owned subsidiary of the Company	10,000,000	25%
Total:	40,000,000	100%

5. It is stated in the legal opinion given by the Company's PRC legal advisers, Jingtian & Gongcheng (北京市競天公誠律師事務所), *inter alia*, that:

(i) Dangyang Golden Three Gorges Liantong Printing Co., Ltd. (當陽金三峽聯通印務有限公司) ("Dangyang Liantong") is a sino-foreign joint venture company established on 12 May 2004. Based on the Enterprise Legal Person Business Licence (企業法人營業執照) issued on 1 August 2013 by Yichang Administration for Industry and Commerce (宜昌市工商行政管理局), the registered capital of Dangyang Liantong is RMB40,000,000 and the shareholders of Dangyang Liantong comprise Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) ("Party A") and Easy Creator Limited (宜佳有限公司) ("Party B"). The capital contribution amount and percentage of equity interests for Party A and Party B are RMB30,000,000 (75%) and RMB10,000,000 (25%), respectively.

Pursuant to clause no. 5 of the joint venture agreement dated 15 May 2013 entered into between Party A and Party B, the sharing of profit and loss shall be based on the respective ratio of capital contribution to the registered capital and the resolutions of the board of directors.

Up to the date of the legal opinion, Dangyang Liantong already obtained all the licences, certificates and approvals to conduct the types of business stated in the business scope of the Enterprise Legal Person Business Licence;

(ii) Dangyang Liantong has lawfully and effectively obtained the land use rights of two parcels of land held under Stated-owned Land Use Rights Certificates (國有土地使用證) — Dangyang Guo Yong (2004) No. 090308002-1 (當陽國用(2004)第090308002-1號) and Dangyang Guo Yong (2004) No. 090207022 (當陽國用(2004)第090207022號). Dangyang Liantong is the unique legal user of the two parcels of land and has obtained all the necessary permits and certificates from relevant government department of the PRC Government regarding rights to use of the two parcels of land;

(iii) Within the land use rights term, Dangyang Liantong could occupy, use, lease, transfer, mortgage or lawfully dispose (in other modes) the land use rights;

(iv) Apart from the pledges mentioned in *Note 3(i)* above, the land use rights of the two parcels of land were not subject to any guarantees, pledges, seizure or other forms of miscellaneous rights;

(v) Dangyang Liantong has lawfully and effectively obtained the ownership of the buildings mentioned in the eleven Building Ownership Certificates — Dang Shi Fang Quan Zheng Yu Yang Zi Nos. 00021384-00021392, 00021668 and 00021669 (房屋所有權證 — 當市房權證玉陽字第00021384-00021392, 00021668及00021669號). Dangyang Liantong is the unique owner possessing the rights to occupy, use, lease, transfer, mortgage or lawfully dispose (in other modes) the building ownership right within the land use terms of the land; and

(vi) Apart from the pledge mentioned in Note 3(ii) above, the building ownership rights of the buildings were not subject to any guarantees, pledges, seizure or other forms of miscellaneous rights.

6. A breakdown of our opinion of value is set out as follows:

	Capital value in existing state as at 30 April, 2014	**Interest attributable to the Group**	**Capital value in existing state attributable to the Group as at 30 April, 2014**
	RMB		*RMB*
Land use rights	9,050,000	87.145%	7,886,623
Buildings	10,030,000	87.145%	8,740,644
Total:	19,080,000		16,627,267

Group II — Property interest contracted to be disposed of by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April, 2014 *RMB*
1.	A parcel of industrial land located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	The property comprises a parcel of industrial land having a site area of 18,273.77 sq. m. The property is subject to a land use rights for a term expiring on 17 January, 2054 for industrial purpose.	The property is currently pending title transfer registration.	6,970,000 of which 82.86% was attributable to the Group: 5,775,342

Notes:

1. According to a State-owned Land Use Rights Certificate — Yi Shi Guo Yong (2008) No. 100204045–2 (國有土地使用證 — 宜市國用(2008)第100204045–2號), the land user of a parcel of land having a site area of 18,273.77 sq. m. is Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company. This parcel of land is designated for industrial purpose having a land use term expiring on 17 January, 2054.

2. According to a land transfer contract entered into between Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company ("Party A") and Hubei Mengke Paper Co., Ltd (湖北盟科紙業有限公司), a former non-wholly owned subsidiary of Hubei Golden Three Gorges Printing Industry Co., Ltd. ("Party B") on 30 May 2013, Party A agreed to transfer the parcel of land mentioned in *Note 1* above to Party B at a consideration of RMB7,189,400.

3. We have been advised by the Company that the transaction shall be completed upon successful title transfer registration.

4. It is stated in the legal opinion given by the Company's PRC legal advisers, Jingtian & Gongcheng (北京市競天公誠律師事務所), *inter alia*, that:

   (i) According to a confirmation letter dated 21 March, 2014 issued by Yichang City State Land Resources Bureau, Gao Xin Sub-Bureau (宜昌市國土資源局高新分局), the title transfer of the land use rights is still under process and there is no obstacle in such title transfer; and

   (ii) Upon successful change in the title of the land use rights, Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) shall no longer possess such land use rights.

Group III — Property interests leased by the Group in the PRC and Hong Kong

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 April, 2014 *RMB*
1.	125 dormitory units in a dormitory building located at No. 15 Shantou Road, Dongshan Economic Developing District, Yichang, Hubei Province, The PRC.	The property comprises 125 dormitory units in a 6-storey dormitory building. The building was completed in 2007. The property has a total lettable area of about 5,870 sq. m. The property is currently occupied by the Group for dormitory purpose.	The property is rented by the Group for a term commencing from 1 January, 2014 to 31 December, 2014 at a monthly rent of RMB54,600 inclusive of management fees but exclusive of water and electricity charges.	No commercial value

Notes:

1. The tenant is Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a 82.86%-owned subsidiary of the Company.

2. It is stated in the legal opinion given by the Company's PRC legal advisers, Jingtian & Gongcheng (北京市競天公誠律師事務所), *inter alia*, that:

   (i) The building leasing contract is legal, enforceable and legally binding;

   (ii) The lessor has the right to lease out the property; and

   (iii) The building leasing contract has been filed to Yichang City Real Estate Administration Bureau (宜昌市房產管理局) and obtained a Yichang City Real Estate Leasing Registration Filing Certificate — Yi Shi Fang Zu Bei Zheng No. (2014) 0015 (宜昌市房屋租賃登記備案證明 — 宜市房租備證 (2014) 0015號).

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 April, 2014 *RMB*
2.	Suite 3212 on 32nd Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong.	The property comprises an office unit on 32nd Floor of a 47-storey office building. The building was completed in 1993. The property has a lettable area of about 905 sq. ft. (about 84.1 sq. m.). The property is currently occupied by the Group for office purpose.	The property is rented by the Group for a term commencing from 3 March, 2014 to 2 March, 2016 at a monthly rent of HK$54,300 exclusive of management fees and air-conditioning charge.	No commercial value

Note: The tenant is Park Linker Limited, an indirect wholly-owned subsidiary of the Company.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 August 2013 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "Memorandum") and the Amended and Restated Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; and

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 6 June 2014. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(viii) Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded or otherwise required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles). A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

(m) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(s) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 5 August 2013 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 20 August 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" set out in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 5 August 2013. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 2 April 2014 and our principal place of business in Hong Kong is at Suite 3212, 32nd Floor, Tower One, Times Square, No. 1 Matheson Street, Causeway Bay, Hong Kong. Loong & Yeung of Suites 2001–2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, the authorised share capital was HK$380,000 divided into 38,000,000 shares of HK$0.01 each. One Share was allotted and issued nil paid to the subscriber on 5 August 2013, which was subsequently transferred to Spearhead Leader on the same date.

(b) On 6 June 2014, our sole Shareholder resolved to increase the authorised share capital of our Company from HK$380,000 to HK$20,000,000 by the creation of an additional of 1,962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.

(c) Pursuant to the Reorganisation and as consideration for the acquisition by our Company of the entire issued share capital of Giant Harmony from Spearhead Leader and Star Glide, on 30 April 2014, (i) the one nil-paid Share then held by Spearhead Leader was credited as fully paid at par; and (ii) 9,304 Shares and 695 Shares, all credited as fully paid at par, were allotted and issued to Spearhead Leader and Star Glide, respectively.

(d) Immediately following completion of the Capitalisation Issue and the Share Offer, and taking no account of any Share which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, 300,000,000 Shares will be issued fully paid or credited as fully paid, and 1,700,000,000 Shares will remain unissued.

(e) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 6 June 2014" in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(f) Save as disclosed in the section headed "Share Capital" in this prospectus and in this paragraph headed "Changes in share capital of our Company", there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 6 June 2014

By written resolutions of our Shareholders passed on 6 June 2014:

(a) our Company approved and adopted the Memorandum and the Articles;

(b) conditional on the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus, including any options which may be granted under the Share Option Scheme, and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:

(i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer to rank pari passu with the then existing Shares in all respects;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" of this appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and

(iii) conditional further on the share premium account of the Company being credited as a result of the Share Offer, the Capitalisation Issue be approved, and the Directors were authorised to capitalise an amount of HK$2,249,900 standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 224,990,000 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of the Company at the close of business on 5 June 2014 in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company, each ranking pari passu in all respects with our Shares then in issue, and the Directors were authorised to give effect to such capitalisation and distributions;

(c) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Share allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders or pursuant to the Share

Offer, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;

(d) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Share which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and

(e) the general unconditional mandate mentioned in sub-paragraph (c) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Share Offer but excluding any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the Listing of our Shares on the Stock Exchange, pursuant to which our Company became the holding company of our Group. The Reorganisation included the following major steps:

(a) On 5 August 2013, our Company was incorporated in the Cayman Islands with an authorized share capital of HK$380,000 divided into 38,000,000 ordinary shares with a par value of HK$0.01 per share. One nil-paid Share was allotted and issued to the subscriber to the memorandum and articles of association of our Company, which was later transferred to Spearhead Leader on the same date.

(b) Giant Harmony was incorporated in the BVI with limited liability on 15 March 2013 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each.

(c) Easy Creator was incorporated in Hong Kong with limited liability on 12 April 2013 having 1 share in issue and a share capital of HK$1.00.

(d) Park Linker was incorporated in Hong Kong with limited liability on 12 April 2013 having 1 share in issue and a share capital of HK$1.00.

(e) One fully paid share of Giant Harmony was allotted and issued to Spearhead Leader on 26 April 2013 at par.

(f) One fully paid share of Park Linker was allotted and issued to Giant Harmony on 29 April 2013 at par.

(g) 75 fully paid shares and 25 fully paid shares of King Gather were transferred to Giant Harmony by Mr. Yang Cai and Mr. Feng on 21 June 2013 at par.

(h) One fully paid share of Easy Creator was transferred to Giant Harmony by the subscriber on 29 April 2013 at par.

(i) Pursuant to an equity transfer agreement dated 27 April 2013 entered into between Hubei Golden Three Gorges, Medicon and Zhuhai Company (and supplemented by a supplemental agreement dated 20 May 2013) referred to in items (b) and (g) of the paragraph headed "Summary of material contracts" in this appendix, Hubei Golden Three Gorges transferred 5% equity interest in Hubei Mengke to Zhuhai Company at a consideration of RMB1,658,429.03.

(j) Pursuant to an equity transfer agreement dated 15 May 2013 entered into between Easy Creator and Maoming Company, referred to in item (c) of the paragraph headed "Summary of material contracts" in this appendix, Maoming Company transferred 18.435% equity interest in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB23,762,045.08.

(k) Pursuant to an equity transfer agreement dated 15 May 2013 entered into between Easy Creator and Shenzhen Company, referred to in item (d) of the paragraph headed "Summary of material contracts" in this appendix, Shenzhen Company transferred 21.54% equity interest in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB27,767,159.74.

(l) Pursuant to an equity transfer agreement dated 15 May 2013 entered into between Easy Creator and Medicon, referred to in item (e) of the paragraph headed "Summary of material contracts" in this appendix, Medicon transferred 36.74% equity interest in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB47,364,947.72.

(m) Pursuant to an equity transfer agreement dated 15 May 2013 entered into between Easy Creator and Medicon, referred to in item (f) of the paragraph headed "Summary of material contracts" in this appendix, Medicon transferred 25% equity interest in Dangyang Liantong to Easy Creator at a consideration of RMB11,842,282.56.

(n) Pursuant to an equity transfer agreement dated 25 July 2013 entered into between Yichang Company and Maoming Company, Maoming Company transferred 6.145% equity interest in Hubei Golden Three Gorges to Yichang Company at a consideration of RMB7,920,681.69.

(o) Pursuant to an equity transfer agreement dated 10 August 2013 entered into between Easy Creator and Yichang Company, referred to in item (l) of the paragraph headed "Summary of material contracts" in this appendix, Yichang Company transferred 6.145% equity interest in Hubei Golden Three Gorges to Easy Creator at a consideration of RMB7,920,681.69.

(p) 9,304 and 695 fully paid shares of Giant Harmony were allotted and issued to Spearhead Leader and Star Glide, respectively on 4 September 2013 at par.

(q) 9,305 and 695 shares of Giant Harmony were allotted and issued to Spearhead Leader and Star Glide, respectively, credited as fully paid, on 30 April 2014 to capitalize the shareholder's loans Spearhead Leader and Star Gilde had provided to Giant Harmony in the amount of RMB110,504,769 and RMB8,152,347, respectively.

(r) Pursuant to a sale and purchase agreement dated 30 April 2014 entered into among our Company, Spearhead Leader, Star Glide, Mr. Yang and Mr. Feng, referred to in item (m) of the paragraph headed "Summary of material contracts" in this appendix, our Company acquired from Spearhead Leader 18,610 ordinary shares and from Star Glide 1,390 ordinary shares of US$1 each in the share capital of Giant Harmony, representing the entire issued share capital of Giant Harmony. As consideration for the acquisition, (i) the one nil-paid Share then held by Spearhead Leader was credited as fully paid at par, and (ii) 9,304 and 695 Shares, all credited as fully paid at par, were allotted and issued to Spearhead Leader and Star Glide, respectively.

Immediately after completion of the share transfer referred to in item (r) above, our Company then became the holding company of our Group.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. In addition to the alterations described in paragraph headed "Corporate reorganisation" above, the following changes in the share capital of the subsidiaries of our Company took place within the two years immediately preceding the date of this prospectus:

King Gather was incorporated in Hong Kong with limited liability on 3 May 2013 having 1 share in issue and a share capital of HK$1.00.

On 16 May 2013, Cartech Limited, the subscriber of King Gather, transferred 1 share of King Gather, being the entire issued share capital of King Gather, to Mr. Yang Cai. On 16 May 2013, 74 fully paid ordinary shares of King Gather were issued and allotted at par to Mr. Yang Cai and 25 fully paid ordinary shares of King Gather were issued and allotted at par to Mr. Feng. On 21 June 2013, each of Mr. Yang Cai and Mr. Feng transferred 75 shares and 25 shares of King Gather, together being the entire issued share capital of King Gather, to Giant Harmony.

Save as disclosed above, and as mentioned in the paragraph headed "Corporate reorganisation" in this appendix and in the section headed "History, Reorganisation and Group Structure" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 6 June 2014, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors authorising our Directors to exercise all powers of our Company to purchase on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares representing up to 10% of the aggregate of the nominal value of the share capital in issue immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Share which may fall to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "connected person", which includes a director, chief executive or substantial shareholder of our Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 300,000,000 Shares in issue after completion of the Capitalisation Issue and the Share Offer, could accordingly result in up to 30,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) an equity transfer agreement in Chinese dated 12 November 2012 entered into between Hubei Golden Three Gorges and Zhuhai Company, pursuant to which Zhuhai Company agreed to acquire 70% equity interest in Hubei Mengke from Hubei Golden Three Gorges at a consideration of RMB22,000,000;

(b) an equity transfer agreement in Chinese dated 27 April 2013 entered into between Hubei Golden Three Gorges, Medicon and Zhuhai Company, pursuant to which Zhuhai Company agreed to acquire 5% equity interest in Hubei Mengke from Hubei Golden Three Gorges at a consideration of RMB1,313,114.36;

(c) an equity transfer agreement in Chinese dated 15 May 2013 entered into between Easy Creator and Maoming Company, pursuant to which Easy Creator agreed to acquire 18.435% equity interest in Hubei Golden Three Gorges from Maoming Company at a consideration of RMB23,762,045.08;

(d) an equity transfer agreement in Chinese dated 15 May 2013 entered into between Easy Creator and Shenzhen Company, pursuant to which Easy Creator agreed to acquire 21.54% equity interest in Hubei Golden Three Gorges from Shenzhen Company at a consideration of RMB27,767,159.74;

(e) an equity transfer agreement in Chinese dated 15 May 2013 entered into between Easy Creator and Medicon, pursuant to which Easy Creator agreed to acquire 36.74% equity interest in Hubei Golden Three Gorges from Medicon at a consideration of RMB47,364,947.72;

(f) an equity transfer agreement in Chinese dated 15 May 2013 entered into between Easy Creator and Medicon, pursuant to which Easy Creator agreed to acquire 25% equity interest in Dangyang Liantong from Medicon at a consideration of RMB11,842,282.56;

(g) a supplemental agreement in Chinese dated 20 May 2013 entered into between Hubei Golden Three Gorges, Medicon and Zhuhai Company to revise certain terms of the equity transfer agreement referred to in item (b) above, and the consideration was adjusted to RMB1,658,429.03;

(h) a sale and purchase agreement in Chinese dated 30 May 2013 entered into between Hubei Golden Three Gorges and Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase a land use right from Hubei Golden Three Gorges at a consideration of RMB7,189,400;

(i) a sale and purchase agreement in Chinese dated 30 May 2013 entered into between Hubei Golden Three Gorges and Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase a property from Hubei Golden Three Gorges at a consideration of RMB9,048,100;

(j) a sale and purchase agreement in Chinese dated 30 May 2013 entered into between Hubei Golden Three Gorges and Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase a property from Hubei Golden Three Gorges at a consideration of RMB4,334,300;

(k) a sale and purchase agreement in Chinese dated 30 May 2013 entered into between Hubei Golden Three Gorges and Hubei Mengke, pursuant to which Hubei Mengke agreed to purchase certain assets from Hubei Golden Three Gorges at a consideration of RMB1,188,076.68;

(l) an equity transfer agreement in Chinese dated 10 August 2013 entered into between Easy Creator and Yichang Company, pursuant to which Easy Creator agreed to acquire 6.145% equity interest in Hubei Golden Three Gorges from Yichang Company, at a consideration of RMB7,920,681.69;

(m) a sale and purchase agreement dated 30 April 2014 entered into among our Company, Spearhead Leader, Star Glide, Mr. Yang and Mr. Feng, pursuant to which our Company agreed to acquire from Spearhead Leader 18,610 ordinary shares and Star Glide 1,390 ordinary shares of US$1 each in the share capital of Giant Harmony, representing the entire issued share capital of Giant Harmony, and as consideration, (i) the one nil-paid Share then held by Spearhead Leader was credited as fully paid at par, and (ii) 9,304 and 695 Shares, all credited as fully paid at par, were allotted and issued to Spearhead Leader and Star Glide, respectively;

(n) an instrument of transfer dated 30 April 2014 entered into between our Company and Spearhead Leader for the transfer of 18,610 ordinary shares of US$1 in the share capital of Giant Harmony as referred to item (m) above;

(o) an instrument of transfer dated 30 April 2014 entered into between our Company and Star Glide for the transfer of 1,390 ordinary shares of US$1 each in the share capital of Giant Harmony as referred to item (m) above;

(p) a deed of non-competition in Chinese dated 6 June 2014 executed among Mr. Yang and our Company, details of which are set out in the section headed "Relationship with Controlling Shareholders — Non-competition Undertaking" in this prospectus;

(q) a deed of non-competition in Chinese dated 6 June 2014 executed among Spearhead Leader and our Company, details of which are set out in the section headed "Relationship with Controlling Shareholders — Non-competition Undertaking" in this prospectus;

(r) a deed of indemnity dated 6 June 2014 executed by Mr. Yang and Spearhead Leader containing the indemnities referred to in the paragraph headed "Tax and other indemnities" in this appendix; and

(s) the Public Offer Underwriting Agreement.

2. Intellectual property rights

Trademark

As at the Latest Practicable Date, our Group had the following registered trademarks:

Trademark	Class	Registration number	Registration date	Expiry date	Place of registration	Registrant
	40	6664726	7 April 2010	6 April 2020	PRC	Hubei Golden Three Gorges
	16, 39, 42	302704626	15 August 2013	14 August 2023	Hong Kong	Giant Harmony

Patent

As at the Latest Practicable Date, our Group had registered the following patents:

Patent	Registrant	Announcement date	Place of registration	Patent number	Term
Anti-counterfeiting packing material with directly molded latent image and preparation method thereof (直接模壓潛像防偽包裝材料及其製備方法)	Hubei Golden Three Gorges	22 August 2012	PRC	ZL 201010250674.9	20 years
Slide cigarette popping type cigarette box (滑動彈煙式香煙盒)	Hubei Golden Three Gorges	25 July 2012	PRC	ZL 201010246537.8	20 years
Roll paper off-line mould cutter (捲筒紙下線模切機)	Hubei Golden Three Gorges	14 November 2007	PRC	ZL 200620097758.2	10 years
Novel cigarette packing box (新型香煙包裝盒)	Hubei Golden Three Gorges	12 September 2007	PRC	ZL 200620099582.4	10 years
Openable and cover turnable packing box (拉開翻蓋式包裝盒)	Hubei Golden Three Gorges	27 May 2009	PRC	ZL 200820068479.2	10 years
Whirly-lifting-type barrel-packaging cigarette case (迴旋升降式筒裝煙盒)	Hubei Golden Three Gorges	29 December 2010	PRC	ZL 201020188382.2	10 years
Direct mould pressing sub-image anti-false packing material (直接模壓潛像防偽包裝材料)	Hubei Golden Three Gorges	9 February 2011	PRC	ZL 201020285296.3	10 years
Top opening vertical cigarette packing box (頂開立式香煙包裝盒)	Hubei Golden Three Gorges	9 February 2011	PRC	ZL 201020260350.9	10 years

Patent	Registrant	Announcement date	Place of registration	Patent number	Term
Temperature sensors QR Code Printing Structure (一種熱變顯現二維碼的印刷結構)	Hubei Golden Three Gorges	26 March 2014	PRC	ZL 201320617901.6	10 years
Device for treating volatile organic compounds (VOCs) in cigarette packs (煙標VOCs處理裝置)	Hubei Golden Three Gorges	3 August 2011	PRC	ZL 201020664792.X	10 years
Transmitting invisible anti-counterfeiting paper (透射隱形防偽紙)	Hubei Golden Three Gorges	5 October 2011	PRC	ZL 201120045544.1	10 years
Electrochemical aluminum waste collecting machine (電化鋁收廢機)	Hubei Golden Three Gorges	27 March 2013	PRC	ZL 201220519710.1	10 years
Integrated mounting bracket for electrograph plates (電雕版整體安裝支架)	Hubei Golden Three Gorges	16 January 2013	PRC	ZL 201220356682.6	10 years
Cigarette case (movable type) (煙盒(活字印刷))	Hubei Golden Three Gorges	12 January 2011	PRC	ZL 201030210697.8	10 years
Cigarette case (China red porcelain) (煙盒(中國紅瓷))	Hubei Golden Three Gorges	12 January 2011	PRC	ZL 201030210495.3	10 years
Cigarette case (Tang dynasty costume) (煙盒(唐裝))	Hubei Golden Three Gorges	12 January 2011	PRC	ZL 201030210698.2	10 years
Cigarette case (Hundred Family Surname) (煙盒(百家姓))	Hubei Golden Three Gorges	12 January 2011	PRC	ZL 201030210696.3	10 years
Cigarette case (Golden Three Gorges Dragons) (煙盒(金三峽禧龍))	Hubei Golden Three Gorges	13 June 2012	PRC	ZL 201130422242.7	10 years
Cigarette case (Golden Three Gorges Nature) (煙盒(金三峽天然))	Hubei Golden Three Gorges	13 June 2012	PRC	ZL 201130422247.X	10 years
Cigarette case (Golden Three Gorges Cinnabar) (煙盒(金三峽朱砂))	Hubei Golden Three Gorges	13 June 2012	PRC	ZL 201130422258.8	10 years
Cigarette case (Golden Three Gorges Sky) (煙盒(金三峽天韻))	Hubei Golden Three Gorges	13 June 2012	PRC	ZL 201130422238.0	10 years

As at the Latest Practicable Date, our Group had applied for registration of the following patents, the registration of which have not yet been granted:

Patent	Registrant	Place of application	Application number	Date of application
Temperature sensors QR Code Printing Structure (一種熱變顯現二維碼的印刷結構)	Hubei Golden Three Gorges	PRC	201310464888.X	9 October 2013
Optically variable anti-counterfeiting hammer printing ink and preparation method thereof (光變錘紋防偽油墨及其製備方法)	Hubei Golden Three Gorges	PRC	201210283978.4	10 August 2012
Electric aluminum and waste machine (電化鋁收廢機)	Hubei Golden Three Gorges	PRC	201210383588.4	11 October 2012

Domain Name

As at the Latest Practicable Date, our Group had been licensed to use the following domain names:

Domain Name	Registrant	Expiration date
ycjsx.com	Hubei Golden Three Gorges	18 February 2016
jsxyw.com	Hubei Golden Three Gorges	12 February 2016
ycjsx.cn	Hubei Golden Three Gorges	5 November 2017
jiayaoholdings.com	Our Company	15 August 2023

3. Information about the PRC subsidiaries of our Group

Hubei Golden Three Gorges

Name:	Hubei Golden Three Gorges Printing Industry Co., Ltd
Date of establishment:	15 August 1992
Corporate nature:	Limited liability company (Taiwan, Hong Kong, Macau and domestic equity joint-venture)
Total investment:	RMB236,346,300
Total registered capital and paid-up registered capital:	RMB78,782,100
Attributable effective interest of our Company:	82.86%

Term:	28 years (15 August 1992 to 14 August 2020)
Scope of business:	production and operation of color printing products, cigarette trademarks and other trademarks (expiry date of printing license: 14 March 2015); craftsmanship, technological research and production and sales of novel drug packaging materials
Legal representative:	Mr. Yang

Dangyang Liantong

Name:	Dangyang Golden Three Gorges Liantong Company Limited
Date of establishment:	12 May 2004
Corporate nature:	Limited liability company (sino-foreign joint venture)
Total investment:	RMB80,000,000
Total registered capital and paid-up registered capital:	RMB40,000,000
Attributable effective interest of our Company:	approximately 87.15%
Term:	12 years (12 May 2004 to 11 May 2016)
Scope of business:	production and operation of color printing products, cigarette trademarks and other trademarks printing (expiry date of printing license: 5 March 2015)
Legal representative:	Mr. Yang

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) Immediately following completion of the Capitalisation Issue and the Share Offer but taking no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in the shares, underlying shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, will be as follows:

(i) Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest (approximate)
Mr. Yang	Interest of a controlled corporation *(Note 1)*	209,362,000	69.79%
Mr. Feng	Interest of a controlled corporation *(Note 2)*	15,638,000	5.21%

(ii) Long position in the ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/Nature	Number of share held/ interested	Percentage of interest
Mr. Yang	Spearhead Leader	Beneficial owner	1	100%

Notes:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 Shares held by Spearhead Leader for the purposes of the SFO. Mr. Yang is a director of Spearhead Leader.

2. Mr. Feng beneficially owns the entire issued share capital of Star Glide. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide for the purposes of the SFO. Mr. Feng is a director of Star Glide.

(b) So far as is known to our Directors and taking no account of any Shares which may be taken up under the Share Offer, and Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Share Offer, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Our Company

Name	**Capacity/ Nature of interest**	**Number of Shares held/ interested**	**Percentage of shareholding (approximate)**
Spearhead Leader	Beneficial owner	209,362,000	69.79%
Star Glide	Beneficial owner	15,638,000	5.21%
Ms. Cai	Interest of spouse *(Note 1)*	209,362,000	69.79%
Ms. Zhao Yi	Interest of spouse (Note 2)	15,638,000	5.21%

Notes:

1. Ms. Cai is the spouse of Mr. Yang. Accordingly Ms. Cai is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Yang is interested in for the purpose of the SFO.

2. Ms. Zhao Yi is the spouse of Mr. Feng. Accordingly Ms. Zhao Yi is deemed, or taken to be, interested in all Shares and underlying Shares in which Mr. Feng is interested in for the purpose of the SFO.

Other members of our Group

Name of subsidiary	**Name of shareholder**	**Capacity/ Nature of interest**	**Percentage of shareholding**
Hubei Golden Three Gorges	Hubei Three Gorges	Beneficial owner	17.14%

2. Particulars of service agreements

No Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

(a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the Track Record Period were approximately RMB193,000, RMB183,000 and RMB188,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2014 will be approximately HK$586,000.

(c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	HK$
Executive Directors	
Mr. Yang	120,000
Mr. Feng	360,000
Non-executive Director	
Mr. Yang Fan	120,000
Independent non-executive Directors	
Mr. Gong Jinjun	120,000
Mr. Wang Ping	144,000
Mr. Zeng Shiquan	120,000

4. Fees or commission received

Save as disclosed in the section headed "Underwriting" in this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 30 to the Accountants' Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

(a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;

(b) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors or the experts named in the paragraph headed "Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(d) taking no account of Shares which may be taken up under the Share Offer, and Shares to be issued pursuant to options which may be granted under the Share Option Scheme, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Share Offer, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(e) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange; and

(f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	6 June 2014, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
"Board"	the board of Directors or a duly authorised committee of the board of Directors
"Business Day"	any day on which the Stock Exchange is open for the business of dealings in securities
"Group"	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
"Scheme Period"	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 6 June 2014:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the issue price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.

(v) Maximum number of Shares

(aa) Subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 30,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 30,000,000 Shares from time to time) to the participants under the Share Option Scheme.

(bb) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the Listing Rules in this regard.

(cc) Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.

(dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

(aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:

(i) representing in aggregate over 0.1% of our Shares in issue; and

(ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK$5 million,

such further grant of options is required to be approved by our Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by our Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

(aa) Our Company may not grant any options after inside information has come to its knowledge until such inside information has been announced. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules).

(bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with our fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of a member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in (xiv) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time, provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/ or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("Suspension Date"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of our officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

(aa) the expiry of the period referred to in paragraph (ix) above;

(bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);

(cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;

(dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;

(ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;

(ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or

(gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

(aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.

(bb) Any amendment to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Listing Committee granting the listing of, and permission to deal in, our Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 30,000,000 Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Mr. Yang and Spearhead Leader (collectively, the "Indemnifiers") have, under a deed of indemnity referred to in paragraph (r) of the sub-section headed "Summary of material contracts" in this appendix, given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Share Offer becomes unconditional; (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which Share Offer becomes unconditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Share Offer becomes unconditional; (c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Share Offer becomes unconditional; and (d) any non-compliance with the applicable laws, rules or regulations by any member of our Group on or before the date on which the Share Offer becomes unconditional except that provisions, reserve or allowance has been made for such liabilities in the audited consolidated financial statements of our Company or any other member of our Group for the Track Record Period. The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

(a) specific provision, reserve or allowance has been made for such taxation liability in the audited combined financial statements of any member of our Group for the Track Record Period; or

(b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Share Offer becomes unconditional; or

(c) the liability arises in the ordinary course of business of our Group after 31 December 2013.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

2. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein including any Shares falling to be issued pursuant to the exercise of any options granted or to be granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

Our Company has entered into an agreement with the Sole Sponsor, pursuant to which our Company agreed to pay HK$7,000,000 to the Sole Sponsor to act as the sponsor to our Company in the Share Offer.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$38,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
RaffAello Capital Limited	A licensed corporation under the SFO to carry out Type 6 regulated activity (advising on corporate finance) under the SFO
Jingtian & Gongcheng	Registered law firm in the PRC
Dacheng Law Offices	Registered law firm in the PRC
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Castores Magi (Hong Kong) Limited	Registered Professional Surveyors (General Practice)
Appleby	Cayman Islands attorneys-at-law

7. Consents of experts

Each of RaffAello Capital Limited, Jingtian & Gongcheng, Dacheng Law Offices, HLB Hodgson Impey Cheng Limited, Castores Magi (Hong Kong) Limited and Appleby has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letter and/or opinion and/or valuation certificate and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

10. No material adverse change

Our Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of our Group since 31 December 2013 (being the date to which the latest audited combined financial statements of our Group were made up).

11. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of the subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of the subsidiaries;

(iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares or debenture of any of our Company or our subsidiaries; and

(iv) no share or loan capital of our Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(b) Neither our Company nor any of the subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.

(c) Save as disclosed in the section headed "Underwriting" in this prospectus, none of the parties listed in the paragraph headed "Consents of experts" in this appendix is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.

(d) The branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Branch Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into CCASS for clearing and settlement.

(e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

(f) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(g) We have no outstanding convertible debt securities.

(h) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands law.

(i) The English text of this prospectus shall prevail over the Chinese text.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the Application Forms; (b) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus; and (c) copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Loong & Yeung at Suites 2001–2006, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants' report of our Group dated the date of this prospectus prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;

(c) the audited combined financial statements of our Company as have been prepared for the companies comprising our Group for the three years ended 31 December 2013;

(d) the report on unaudited pro forma financial information issued by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II to this prospectus;

(e) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by Castores Magi (Hong Kong) Limited, the text of which is set out in Appendix III to this prospectus;

(f) the PRC legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisers;

(g) the PRC legal opinion issued by Dacheng Law Offices relating to certain specific contractual issues;

(h) the letter of advice prepared by Appleby summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

(i) the Companies Law;

(j) the rules of the Share Option Scheme;

(k) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus; and

(l) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus.

JIAYAO HOLDINGS LIMITED
嘉耀控股有限公司