YOUYUAN INTERNATIONAL HOLDINGS LIMITED

優源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

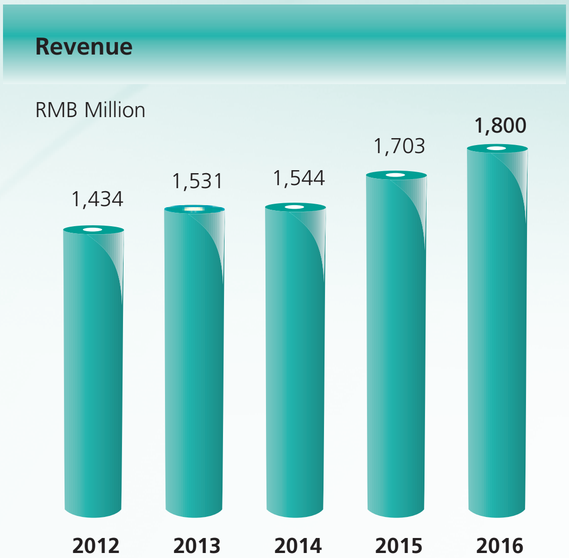
(Stock Code: 2268)

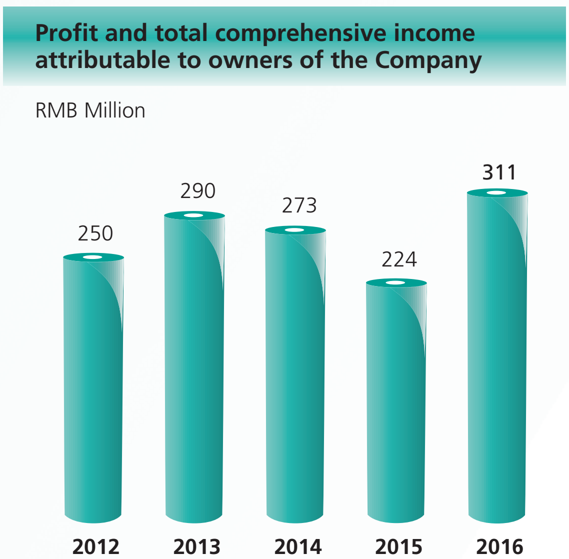
2016

ANNUAL REPORT

CONTENTS

FINANCIAL HIGHLIGHTS





Executive directors

Mr. Ke Wentuo (柯文托)
Mr. Ke Jixiong (柯吉熊)
Mr. Cao Xu (曹旭)
Mr. Zhang Guoduan (張國端)

Independent non-executive directors

Prof. Zhang Daopei (張道沛)
Prof. Chen Lihui (陳禮輝) (Resigned on 11 March 2016)
Prof. Chen Lihong (陳禮洪) (Appointed on 11 March 2016)
Mr. Chow Kwok Wai (周國偉)

Audit committee

Mr. Chow Kwok Wai *(Chairman)*
Prof. Zhang Daopei
Prof. Chen Lihui (Resigned on 11 March 2016)
Prof. Chen Lihong (Appointed on 11 March 2016)

Remuneration committee

Prof. Chen Lihui *(Chairman)* (Resigned on 11 March 2016)
Prof. Chen Lihong *(Chairman)* (Appointed on 11 March 2016)
Prof. Zhang Daopei
Mr. Ke Wentuo

Nomination committee

Prof. Zhang Daopei *(Chairman)*
Prof. Chen Lihui (Resigned on 11 March 2016)
Prof. Chen Lihong (Appointed on 11 March 2016)
Mr. Ke Wentuo

Company secretary

Mr. Wong Yat Sum, *FCCA, FCPA*

Authorised representatives

Mr. Ke Wentuo
Mr. Wong Yat Sum

Cayman Islands share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong share registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Registered office

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarter in the PRC

Xibin Industrial Zone
Jinjiang City
Fujian Province
The People's Republic of China

Principal place of business in Hong Kong

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

In Hong Kong:

China CITIC Bank International Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

In the PRC:

Bank of China
China Merchants Bank
China CITIC Bank
Industrial and Commercial Bank of China Limited

Auditor

RSM Hong Kong
Certified Public Accountants

Legal advisors

Hong Kong law:

Luk & Partners

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited annual results of the Group for the year ended 31 December 2016.

The economy in China continued its slow growth track in 2016 at 6.7% from 2015. These were achieved on the back of the deepening supply-side reforms of the country's manufacturing economy, reforms of its financial sector and the accelerating devaluation of Renminbi. They indicated that China's economy is still resilient on the back of a long list of challenges: the appreciating US dollar, the rising US interest rates, rampant capital flight and increasing complexity of international social-political and socio-economic environment that might inhibit recovery of intra-regional trade.

Retail sales via electronic commerce, continued its strong momentum in China and grew 25.6% from 2015. This indicated sustaining deep penetration of electronic commerce which has now evolved into an indispensable part of consumers' shopping behavior. This has a solid testimony of the efforts by the Central Government in diverting the focus of the country's economic activities towards those that help boost demand and enhance the overall efficiency from the otherwise unproductive investments in asset speculations and in industries already suffering from overcapacity.

With these reform initiatives accomplishing solid progresses one after another, China will be embracing new growth and development driven by innovation and production of high-value goods and services. These will give rise to proliferation of a more advanced manufacturing sector that supports participants with new technologies, advanced management and better utilization of big data. Already on the cutting edge of the technological advances of the paper-manufacturing industry, Youyuan will be among the first enterprises to benefit from this major transformation.

Business Review

For the year ended 31 December 2016, the Group's revenue was approximately RMB1,799.5 million (2015: RMB1,702.7 million), representing an increase of approximately 5.7% from that of the previous year. Profit attributable to owners of the Company increased by approximately 38.7% to approximately RMB310.6 million (2015: RMB223.9 million). Basic earnings per share amounted to approximately RMB0.262 (2015: RMB0.189) per share.

During 2016, the paper manufacturing industry in China maintained a steadier and healthier development than in the previous years as it had started to reap initial benefits from years of adjustments and consolidation.

Meanwhile, consumption of paper products started a modest recovery as competition became less intense as a result of the industry consolidation.

Prices of raw pulp strengthened from their low levels seen previously and remained steady, again due to consolidation within this segment of the industry, as part of the deepening supply-side reforms implemented nationwide in China that depleted inventories and eliminated excessive capacities. Meanwhile, prices of imported recycled pulp also bottomed out due to depleting inventories and the depreciation of Renminbi.

As for finished paper products, the stabilizing economy in China and depleting inventories supported prices of finished products at reasonably healthy levels. Online shopping and electronic commerce continued to be a major driver that sustained demand for package-use paper products, machine-finished tissue paper and cardboard paper.

China continued to pursue deepened enactment of new laws and regulations on environmental protection and sewage treatment during year under review, prompting accelerated closures of obsolete capacities which had failed to comply with the new requirements.

As for sales, electronic commerce remained as the strongest demand driver for package-use paper products, sustained demand for both machine-finished tissue paper and cardboard paper.

These are in agreement with the headline economic figures of the country during the year. Retail sales for the whole year of 2016 in China rose 9.6% year on year, according to the National Bureau of Statistics. Yet retail sales via electronic commerce rose 25.6% year on year during the same period.

At the same time, the recovery of residential property market in China also sustained demand for wall paper products.

In addition, the Group's newly acquired wall paper business made solid contribution to its share of profits of an associate for the whole year.

Prospect and Strategy

Looking ahead into 2017, demand for paper products is expected to return to more robust levels, reflecting the stabilizing economic growth in China that is precipitating modest upside potential. The paper manufacturing industry has proven to have benefited from the supply-side reforms by eliminating obsolete and non-environmental friendly capacities since many years ago, resulting in better prices for raw pulp, recycled pulp, finished paper products and much lower inventories of both raw materials and finished products.

Meanwhile, gradual revival in demand for the industry as a whole will continue to support prices for finished products.

As far as the Group's business is concerned, the Group has reinforced its presence in the traditional areas of wrapping tissue paper as ongoing industry consolidation had decommissioned capacities of some of the Group peers in a move that is restoring order to the sector. Meanwhile, the continuing boom in electronic commerce and the fresh income stream from the newly acquired wall paper business will contribute to better resilience of the Group's revenue and profit for the rest of the year.

Acknowledgements

On behalf of the Board, I would like to extend my sincerest gratitude to all the shareholders, customers and business partners for their support. I would also like to take this opportunity to express my heartfelt appreciation to all employees for their dedication and contributions.

Ke Wentuo
Chairman

Hong Kong, 14 March 2017

BUSINESS REVIEW

China's paper manufacturing industry grew steadily in 2016 as years of adjustments and consolidation began to yield results. Competition showed signs of abating.

There was also a modest recovery in consumer spending on paper products.

Prices of raw pulp rose from their previous lows and stabilized. This was because both inventories and excess production capacity were reduced as the paper manufacturing industry was being consolidated as part of the ongoing nationwide campaign to restructure the supply side. The decrease in production capacity was also attributable to China's move to toughen its environmental laws and its regulations on sewage treatment during the year under review. The more stringent environmental requirements prompted faster closures of backward production capacity.

Meanwhile, prices of imported recycled pulp also bottomed out because the inventories were depleted and the renminbi was devalued.

Prices of finished paper products stabilized at a reasonable level as they were supported by signs of steadiness in China's economy and depleted inventories.

Online shopping and electronic commerce continued to play a crucial role in sustaining the demand for the Group's paper products for packaging, machine-finished tissue paper and cardboard paper.

At the same time, the recovery in China's residential property market sustained demand for wall paper products. This boded well for the wall paper manufacturing and trading firm, Xin Wing Enterprises Limited, in which the Group acquired a 41.0% equity stake in February 2016. The wall paper company contributed to the Group's revenue and profit during the year.

Investment in wall paper business

On 5 February 2016, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) completed its acquisition of 41.0% equity interest in Xin Wing Enterprises Limited ("Xin Wing"). Xin Wing and its subsidiaries (together with Xin Wing, "Xin Wing Group") are principally engaged in manufacturing and trading of wall paper in China under their own branded wall paper and also on an OEM basis.

For the year ended 31 December 2016, the total revenue of Xin Wing Group was approximately RMB800.3 million and the net profit of Xin Wing Group was approximately RMB250.5 million. The share of profit of Xin Wing Group as an associate of the Group from the date of completion of acquisition up to 31 December 2016 was approximately RMB94.0 million and was credited to profit and loss of the Group during this reporting period.

On 26 July 2016, Xi Yuan BVI had issued a notice of offer to purchase the 20.0% equity interest in Xin Wing held by Cathay Capital Holdings III, L.P. ("Cathay Fund") and Cathay Fund had accepted the offer on the same date (the "Further Acquisition"). On 10 August 2016, Xi Yuan BVI entered into a memorandum of understanding with Xin Wing Group and Ms. Ke Jinzhen (the daughter of Mr. Ke Wentuo, the Chairman and an executive Director of the Company, a connected person of the Company) pursuant to which Xi Yuan BVI will purchase the 39.0% equity interest in Xin Wing held by Ms. Ke (the "Possible Acquisition"). As at 31 December 2016, the parties have not yet entered into definitive sale and purchase agreements and related documents to formalize the Further Acquisition and the Possible Acquisition.

BUSINESS REVIEW AND OUTLOOK

Segmental Analysis

Wrapping tissue paper

Wrapping tissue paper includes double-sided machine-finished ("MF") tissue paper, single-sided MF tissue paper, food wrapping tissue paper, semi-transparent wrapping tissue paper and colour wrapping tissue paper.

Total revenue generated from wrapping tissue paper was RMB1,347.4 million, contributed to approximately 74.9% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper remained relatively stable at RMB166.1 million, contributed to approximately 9.2% of the Group's revenue for this reporting period. One production line with designed annual production capacity of 22,000 tonnes resumed operation after maintenance and upgrade works in the fourth quarter of the year.

Wall paper backing paper

Revenue generated from wall paper backing paper was RMB131.7 million, contributed to approximately 7.3% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel and ivory boards, generated revenue of RMB154.3 million during the year and contributed to approximately 8.6% of the Group's revenue for this reporting period.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (by breakdown of locations from which sales were originated), with over 92.0% of the Group's revenue for the reporting period being derived from these two regions.

Operational Analysis

As at 31 December 2016, the Group operated 35 production lines with designed annual production capacities aggregating 358,000 tonnes, including 225,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 46,000 tonnes for other products.

The Group is also equipped with 3 in-house de-inked pulp production lines with designed annual production capacities aggregating 150,000 tonnes for its own use.

Prospects

Looking ahead to 2017, we expect a strong recovery in the demand for paper products because it can be buoyed by China's stabilizing economic growth. The paper manufacturing industry has benefited from the country's supply-side restructuring and tougher environmental policies which have combined to eliminate some excess, backward or polluting production capacity. Such government measures have also reduced inventories of both raw materials and finished products, thus causing the prices of raw pulp, recycled pulp and finished paper products to rebound. Meanwhile, gradual revival of the demand will help sustain the prices of finished products at a reasonable level.

To capitalize on the recovery in the industry and to fill the market void left behind by the eliminated production capacity of the competition, the Group has reinforced the presence of its wrapping tissue paper business. Meanwhile, the continuing boom in electronic commerce and the additional stream of income from the partial acquisition of a wall paper company will add impetus to the Group's development in the future.

Results

Revenue of the Group for the year ended 31 December 2016 was RMB1,799.5 million, representing an increase of approximately 5.7% from RMB1,702.7 million for the year ended 31 December 2015. Profit and total comprehensive income attributable to owners of the Company increased by approximately 38.7% from RMB223.9 million for the year ended 31 December 2015 to RMB310.6 million for the year ended 31 December 2016. The increases in profit and total comprehensive income attributable to owners of the Company were attributable to the share of profit of an associate and increase in sales volume of the Group's products, the impact of which was partly offset by a higher income tax charged for the current year and foreign exchange loss due to appreciation of USD against RMB.

Basic earnings per share for the year ended 31 December 2016 increased by 38.6% to RMB0.262 per share compared with RMB0.189 per share for the year ended 31 December 2015, based on the profit and total comprehensive income attributable to owners of the Company of RMB310.6 million (For the year ended 31 December 2015: RMB223.9 million) and the weighted average of 1,186,072,075 shares (For the year ended 31 December 2015: 1,186,039,090 shares) in issue during this reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB554.5 million for the year ended 31 December 2016 from RMB497.4 million for the year ended 31 December 2015. Overall gross profit margin of the Group increased from 29.2% for the year ended 31 December 2015 to 30.8% for the year ended 31 December 2016.

Other income and other gains and losses

Other income and other gains and losses of the Group increased from a net loss of RMB17.2 million for the year ended 31 December 2015 to a net loss of RMB65.9 million for the year ended 31 December 2016, mainly due to foreign exchange losses as a result of the appreciation of USD against RMB for the bank borrowings denominated in USD.

Share of profit of an associate

Share of profit of an associate of the Group was approximately RMB94.0 million for the year ended 31 December 2016.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 0.9% from RMB10.5 million for the year ended 31 December 2015 to RMB10.6 million for the year ended 31 December 2016, representing approximately 0.6% of the Group's revenue for both reporting periods.

Administrative expenses

Administrative expenses of the Group increased by approximately 0.1% from RMB82.4 million for the year ended 31 December 2015 to RMB82.5 million for the year ended 31 December 2016, representing approximately 4.8% and 4.6% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group increased by approximately 6.1% from RMB67.9 million for the year ended 31 December 2015 to RMB72.0 million for the year ended 31 December 2016, primarily due to an increase in the average balance of bank borrowings and a reduction of the amount of capitalized interest for qualifying assets during this reporting period.

Interest rates of bank loans ranged from 2.13% to 8.00% for the year ended 31 December 2016, compared with 1.50% to 8.0% for the year ended 31 December 2015.

Other expenses

Other expenses mainly comprise research and development expenses on energy conservation, consumption reduction, environmental protection system and application of recycled materials as raw materials across the production process.

Taxation

Tax charge increased by approximately 23.7% from RMB62.0 million for the year ended 31 December 2015 to RMB76.6 million for year ended 31 December 2016. The increase in tax charge was mainly due to increase in profit from operating subsidiaries in the PRC. The Group's effective tax rates for the years ended 31 December 2015 and 2016 were 21.7% and 19.8%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB223.9 million for the year ended 31 December 2015 to RMB310.6 million for the year ended 31 December 2016. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased from approximately 13.1% for the year ended 31 December 2015 to approximately 17.3% for the year ended 31 December 2016.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production. For the year ended 31 December 2016, the inventory turnover cycle was approximately 27.9 days (For the year ended 31 December 2015: 34.8 days). The improvement in inventory turnover cycle was mainly due to better control on inventory management exercised by the Group.

The turnover cycle of trade receivables for the year ended 31 December 2016 was 145.3 days (For the year ended 31 December 2015: 141.7 days). With deep understandings in its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

The turnover cycle for trade payables for the year ended 31 December 2016 lengthened to 53.1 days (For the year ended 31 December 2015: 47.9 days), which was similar with the 60 days credit period granted by the Group's suppliers.

Borrowings

As at 31 December 2016, the Group's bank borrowings balance amounted to RMB1,681.1 million, of which RMB519.6 million would be due for repayment within the next twelve months (As at 31 December 2015: RMB1,463.4 million, of which RMB873.2 million would be due for repayment within the next twelve months).

As at 31 December 2016, the Group's bank borrowings amounted to RMB1,570.2 million, carried at variable interest rates (As at 31 December 2015: RMB1,416.4 million).

As at 31 December 2016, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash as a percentage of shareholder equity, was 44.7% (As at 31 December 2015: 30.1%).

Pledge of assets

As at 31 December 2016, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB237.9 million (As at 31 December 2015: RMB460.7 million) as collaterals to back the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2016, the Group invested RMB265.4 million (For the year ended 31 December 2015: RMB148.0 million) in construction of production facilities and equipment and prepaid lease payments.

Human Resources Management

As at 31 December 2016, the Group employed approximately 1,500 staff members (As at 31 December 2015: approximately 1,500) and the total remuneration for the year ended 31 December 2016 amounted to approximately RMB68.5 million (For the year ended 31 December 2015: RMB63.3 million). The Group's remuneration packages commensurate with experiences and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board do not recommend declaration and payment of any final dividend for the year ended 31 December 2016 (For the year ended 31 December 2015: NIL).

Dividend Policy

The Company regards the distribution of profits to shareholders as one of its most important considerations. Our basic policy is to provide ongoing, appropriate profit distribution that commensurate with performance. Our policy is to pay dividends that reflect business performance after taking into consideration funds needed to expand our businesses and improve revenues, and ensure the financial health of the Group.

The basic policy of the Group regarding dividends payments from surplus is to effect two dividend payments every year, namely an interim dividend and a year-end dividend, subject to the final determination of the Board with regard to the financial condition and business of the Group. These distributions are decided by the directors of the Company (the "Directors"), unless otherwise stipulated by relevant laws and regulations.

Closure of register of members

The register of members of the Company will be closed from 20 May 2017 to 25 May 2017 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 19 May 2017 for registration of transfer.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ke Wentuo (**柯文托**), aged 60, is the founder of our Group and the Chairman of our Company. Mr. Ke was appointed as an executive Director on 12 October 2009. He is primarily responsible for our overall strategies, planning and business development. Mr. Ke graduated and earned a college diploma from Fujian College of Forestry (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr. Ke has more than 15 years of experience in paper manufacturing. Mr. Ke has been a vice-president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr. Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Tenth Quanzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議第十屆泉州委員會) since December 2009. Mr. Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making* (中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr. Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr. Ke Jixiong (**柯吉熊**), aged 33, joined our Group in 2002 and is the chief executive officer of our Company. Mr. Ke Jixiong was appointed as an executive Director on 6 January 2010. Mr. Ke Jixiong is the son of Mr. Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distant learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr. Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award* (晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference* (中國人民政治協商會議福建省晉江市委員會). He plays an instrumental role in formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and that our production plans, are implemented on schedule, such as introducing de-inking facilities to produce de-inked pulp in house.

Mr. Cao Xu (**曹旭**), aged 52, joined our Group in 1997 and was appointed as an executive Director on 6 January 2010. Mr. Cao is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and earned a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr. Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三冶金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr. Zhang Guoduan (**張國瑞**), aged 53, joined our Group in 2008 and was appointed as an executive Director on 6 January 2010. In 1998, Mr. Zhang completed an 18-month course at Xiamen University* (廈門大學) majoring in economics and management. Mr. Zhang has 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr. Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

Independent Non-Executive Directors

Prof. Zhang Daopei (**張道沛**), aged 80, was appointed as an independent non-executive Director on 6 January 2010. Prof. Zhang graduated from Dongbei Industrial College* (東北工學院) (now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University* (河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建造紙學會) from 1994 to 2007.

Prof. Chen Lihong (**陳禮洪**), aged 47, was appointed as an independent non-executive Director on 11 March 2016. He is a professor at the Fujian University of Technology* (福建工程學院). Prof. Chen Lihong also currently serves as the head of the water and wastewater engineering department* (給排水教研室主任) at the College of Ecological Environment and Urban Construction (生態環境與城市建設學院) of Fujian University of Technology. Prof. Chen Lihong also holds several other positions, including the deputy committee member of the Construction and Water Industry Committee of the Engineering, Construction, Science and Technology Standardization Association of Fujian Province* (福建省工程建設科學技術標準化協會建築水工業委員會副主任委員), committee member of the Water and Wastewater Engineering Academic Committee of the Fujian Province Civil Engineering Society* (福建省土建學會給排水學術委員會委員) and a member of the standing committee of the Architectural Society of China Water Supply and Wastewater Association* (中國建築學會建築給水排水研究分會第二屆院校委員會常務委員).

Mr. Chow Kwok Wai (**周國偉**), aged 50, was appointed as an independent non-executive Director on 6 January 2010. Mr. Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr. Chow is also a registered Certified Tax Adviser (註冊稅務師) of the TIHK effective since 7 September 2010. He has over 20 years' of experience in accounting, financial management and corporate finance. He is a company secretary of Silver Grant International Industries Limited (stock code: 171), a non-executive director of Cinda International Holdings Limited (stock code: 111) and an independent non-executive director of SSY Group Limited (stock code: 2005), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Ltd.

DIRECTORS AND SENIOR MANAGEMENT

Senior management

Mr. Wong Yat Sum (**黃一心**), aged 40, is our Chief Financial Officer and our Company Secretary. Mr. Wong joined our Group in 2009 and is responsible for the budget, financial management and control of our Group. Mr. Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr. Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. He is a non-executive director of Winson Holdings Hong Kong Limited (stock code: 8421) since 21 February 2017. Prior to joining our Group, Mr. Wong was a financial controller for a wood-flooring company in Shanghai, China, where he was responsible for finance, treasury, business planning and risk management.

Mr. Liao Chunxiang (**廖春祥**), aged 52, is Deputy General Manager of Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"). Mr. Liao joined our Group in 2008 and is responsible for managing manufacturing processes at Huaxiang. As Mr. Liao is also a member of our research and development centre, where he participates in our research and development projects. Mr. Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr. Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr. Ke Hongchi (**柯鴻池**), aged 42, is Sales Manager of our Group and is responsible for business development and sales. Mr. Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣職業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and joined our Group in 1994. Mr. Ke Hongchi is responsible for sales development and the management of the sales team of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Since the establishment of Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Huaxiang in 2006, he has also been responsible for overseeing sales development and managing the sales team of Xiyuan and Huaxiang.

Mr. Chen Changxing (**陳長興**), aged 53, is Manager of our research and development centre. Mr. Chen joined our Group in 2006 and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr. Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr. Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr. Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr. Shuai Liangming (**帥亮明**), aged 52, is Quality Control Manager of Huaxiang. Mr. Shuai joined our Group in 2008 and is responsible for quality control at Huaxiang. As Mr. Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr. Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr. Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr. Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr. Wu Xiaoxi (**吳曉曦**), aged 55, is Head of Electrical Engineering Department of Huaxiang. Mr. Wu joined our Group in 2000 and is responsible for the management of matters relating to electrical engineering at Huaxiang. As Mr. Wu is also member of our research and development centre, he also participates in our research and development projects. Mr. Wu graduated from Fuzhou University* (福州大學) in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr. Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Mr. Chen Taibin (**陳太斌**), aged 39, is Manager of Human Resources Department of Youlanfa. Mr. Chen joined our Group in 2009 and is responsible for hiring and training at Youlanfa. Mr. Chen graduated and obtained a college diploma from Fujian Normal School* (福建師範專科學校) in 1995 majoring in chemistry. Prior to joining our Group, Mr. Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.* (福建省晉江三源食品實業有限公司) as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms. Yan Yahong (**顏雅紅**), aged 34, is Deputy Manager of our Purchasing Department. Ms. Yan joined our Group in 2009 and is responsible for raw materials purchasing of our Group. Ms. Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms. Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report highlights the Group's management and strategic approach, priorities and commitment in pursuing aspects of environmental and social areas. The report covers the Group including the Company and its subsidiaries for the period from 1 January 2016 to 31 December 2016.

Environment

The Group attaches great importance to the impact of production operations on the environment, the ecosystem and the related potential risks. It adheres to the principle that "reduction of waste for the community begins with our production" and perseveres in recycling waste materials. The Group strictly abides by the national and local environmental laws, regulations and related requirements, and has obtained ISO14001 certification in environmental management. It was also rated as one of the top ten environmentally friendly enterprises in the paper industry by the Association of Fujian Paper Industry.

The Group is very strict about its management of the "three types of wastes" and has abided by the effluents and emissions standards, such as "discharge standard of water pollutants for pulp and paper industry" DB35/1310-2013, "wastewater quality standards for discharge to municipal sewers" GB/T 31962-2015 and "emission standard of air pollutants for boiler" GB13271-2014. Currently, sewage collection and piping systems for reuse are established in its plants. It adopts biochemical and other advanced techniques to treat wastewater from papermaking, and uses electrostatic dust removal and double alkali desulfurization system to control emission of particulates and sulfur dioxide. In addition, the Group follows the concept of circular economy so it aims for maximum utilization of its resources, especially the maximum recycling of solid waste, by stepping up technological innovation. The Group has established a temporary solid waste storage site in the plant areas, and has specially assigned personnel to manage it. The wastes are classified into categories of recyclable and non-recyclable wastes for separate collections and treatments. The sludge produced in the process is treated and used to produce cardboards, while the deinked pulp, recycled pulp and white waste paper are used as raw materials in the production.

The Group carried out its comprehensive programme to make resources sustainable right from the start. It educated its employees on daily water conservation and ways to save electricity, energy and water through the proper use of equipment. At its production, the Group recycles used water, and has installed supporting treatment facilities to improve the water quality so as to reduce water consumption. To save electricity, the Group uses energy-efficient lighting system and adopts some low-power mechanical equipment and power inverters to reduce power consumption. This has allowed the Group to save electricity. It also optimizes the combination of different abrasive discs to reduce the grinding time to save power. At the same time, circulating fluidized bed boilers are used to improve coal consumption efficiency. Such boilers are also equipped with waste heat recovery system that allows the Group to make good use of renewable energy to reduce the consumption of coal. On the other hand, the Group understands that the production and disposal of packaging materials are becoming a challenging environmental problem. As a wrapping paper manufacturer, the Group has also worked on its own packaging design to strike a balance between the economic and environmental benefits. The Group also educates its employees not to waste packaging materials in the packaging process. Pre-service packaging trainings have also been conducted in order to reduce the waste of packaging material. In addition, we have also been working with the Chinese government to promote the use of more environmentally friendly packaging materials, and will also research on and develop technology of recycling paper in the future.

Society

Employment and labour practices

The Group believes that employees are one of the most important assets. As the business continues to grow, it is necessary to build sustainable human resources, recruit and retain talents, and create a healthy and safe working environment.

Employment

The Group strictly abides by the Labour Law, the Employment Promotion Law, the Labour Contract Law, the Social Insurance Law, and Regulation on Labour Security Supervision of the People's Republic of China as well as the provisions of the State Council on the working hours of the staff, the regulations on minimum wage and other relevant labour laws and regulations. The Group also actively prevents child labour and compulsory employment.

We have formulated the "recruitment management system" to recruit employees with emphasis on "both ability and integrity of the staff and development for mutual benefits of the employees and the company" to ensure that all candidates receive reasonable and equal consideration. Through internal recruitment, the Group creates an echelon of talents to expand staff promotion channel and space for development, so as to enhance internal human resources of the Company. Performance appraisal meetings are regularly held to offer reasonable promotion opportunities for the eligible and hard-working staff. In terms of training, we develop training programs and courses based on different departments and types of work and evaluate the effectiveness of the training of each employee after the end of the courses. The Group also regularly assigns some staff to conduct outreach trainings to enhance their knowledge, skills and techniques related to their current duties or work.

In order to improve the remuneration system and the system of reward and punishment, the Group has formulated the "management measures on remuneration of employee "and the remuneration benchmark, which differentiates basic remuneration levels in accordance with positions, working years, technical positions, duties and so on in order to give employees competitive remuneration packages. Employee benefits and time for work and rest are clearly stated in the employment contracts, while the permanent employment contracts, time-limited contracts and labour dispatch contracts are signed pursuant to local employment laws.

The Group respects equality and ensures fair treatment of employees when it comes to welfare, promotion, evaluation, training and staff development. It also ensures that employees are not discriminated against factors such as race, religion, gender, nationality, age and disability. No unfair or unreasonable dismissal will be made and all termination of labour relations with employees will be carried out in strict compliance with the local labour laws and regulations.

Health and safety

The Group's motto is "safety first, health first". It is committed to maintaining the health of employees, and offering them a safe working environment. The Group strictly abides by relevant laws and regulations such as Production Safety Law, Prevention and Control of Occupational Diseases Law of the People's Republic of China and Industrial Accident Insurance Regulations and the Occupational Safety and Health Ordinance of Hong Kong. It has set up the relevant health and safety management system for its business operation.

We are committed to providing employees with clean, smokeless, healthy and safe working environment, and have established "management system of occupational health", under which annual body checks for staff are organized. Besides, 6S safety evaluation is organized monthly, while the cleaning personnel clean every workplace daily to ensure that the working environment is clean and tidy.

Furthermore, the Group attaches great importance to the safety management of the plant areas, and passed the level three production safety as at 31 December 2013. Job responsibilities for all positions, operating procedures and rules for safety practices are formulated, such as working with protective equipment, posting notices about occupational hazards and warning signs, regular inspection of workshop facilities and equipment, etc. When new projects are put into operation, the Group carefully conducts evaluation of the engineering design pursuant to the "procedures for equipment management" and the safety management to identify any problems, and provide and maintain the infrastructure necessary to ensure product compliance and safety in the course of production.

The Group conducts pre-service training in health and safety for the employees, and training in emergency management, machine operation and handling hazardous materials in accordance with the relevant positions of employees to improve their safety awareness and avoid accidents caused by incomprehension. Meanwhile, special personnel is put in charge of safety management to minimize hidden dangers in a timely manner.

Operational practices

Supply Chain Management

The Group has formulated and implemented measures to select suppliers and manage relationships with them. The Group only chooses suppliers who can meet requirements of sustainable development. It conducts thorough inspection of potential suppliers and adopts a supplier evaluation mechanism. In order to prevent the engagement of non-compliant suppliers, during the inspection period, suppliers are required to provide relevant supporting certificates. Qualified suppliers will be listed as eligible suppliers. Presently, all suppliers of the Group need to obtain ISO9001 quality system certification, ISO14001 environment system certification and FSC forest management system certification. We organize the assessment of suppliers annually to evaluate their performances in terms of product qualification rate, the rate of on-time arrival, after-sales service and timeliness, etc.

Currently, raw and auxiliary materials used in the Group's production are generally provided by two to three long-term suppliers to ensure the stability of the supply. We have specially assigned procurement personnel to collect market information so as to seize the opportunity for bargain purchases to reduce raw material costs.

Product responsibility

The Group attaches great importance to the quality of the product and credibility under the principle of "mutual benefits for the staff and customers". To strengthen the monitoring of product quality, the Group has developed and implemented the "quality management system" to achieve a comprehensive quality management throughout the entire production process from procurement of raw materials to delivery of finished products. Meanwhile, we have developed the "standards of the inspection of product quality" to ensure that our products meet the stringent standards. In addition, online monitoring system is adopted in the production machines for certain products and unqualified products are automatically identified. The products produced by the machines will also be checked by inspection personnel through sampling to ensure that the products purchased by the customers are in good quality. All unqualified products will not be placed in the inventory for sale. All defective products will be recalled, and the quality control department will conduct investigation into and analysis of the products in strict compliance with relevant laws and regulations such as the Measures for the Administration of the Recall of Defective Consumer Goods, the Product Quality Law and the Protection of Consumer Rights and Interests Law of the People's Republic of China.

For the product advertising policies and labeling policies, the Group has legal officers responsible for providing legal advice and supervision. In case there is any inaccurate information in advertisement or labeling, the advertisement which contain content inconsistent with the facts will be terminated immediately and product labels of such nature will be replaced. The Group has also established a customer complaint hotline, and whenever the Company should take the responsibility, a salesperson will go to the site to check the products that the customers have complained about and find out the causes of the problems.

The Group is committed to maintaining and safeguarding our intellectual property rights in China and has registered a number of trademarks and patents in accordance with the relevant laws and regulations. In addition, we have implemented confidential arrangements to protect the relevant expertise, including the confidential and non-competitive commitments by our technical and management personnel to ensure that the relevant expertise will not fall into the hands of our competitors. On the other hand, we have established a clear scope and the rights to access the data about the customers, and strictly abide by the laws and regulations on protection of customer information and privacy policy.

Anti-corruption

The Group has always adhered to the highest ethical standards and strictly abide by the relevant local laws and regulations on anti-corruption, including the Anti-money Laundering Law of the People's Republic of China, Article 274 of the Criminal Law of the country on the Extortion and Blackmail, its Interim Provisions on the Prohibition of Commercial Bribery as well as the Prevention of Bribery Ordinance. Besides, personnel of procuratorate are invited to the Company to conduct relevant educational seminars on integrity and occupational ethics.

The Company has formulated and implemented the "anti-corruption management measures" and has established a sound reporting channel. Employees can report fraud to the Group through the chief executive's mailbox, the complaint line specialized for suppliers, customers and employees, the internal audit department, e-mail, face-to-face meeting and letters, etc. If employees are found to engage in corruption, the case will be filed and handled in accordance with the amount of money involved. The Group and its employees strictly abide by the relevant laws.

Community

The Group is committed to maintaining the long-term, sustainable development of both the business and the communities in the areas where its businesses are located. It does so by actively contributing to the education and environment protection of the local communities. The Group also gives support to the education of every employee's school-age children by providing them after school academy and summer holiday camps for their children, so that there are specialists to take care of the employees' children after school, enabling the employees to concentrate on their work. In addition, we also raise funds from the staff to tide employees over difficulties their families are facing. In 2016, the Group donated more than RMB1 million to the construction of Haibin Primary School of West Coast Town of Jinjiang City, and provided grants to more than a dozen of students whose families had difficulties. The Group also subsidized Children's Day activities held by three schools. Looking ahead to the future, the Company will continue to actively give support to the charitable activities jointly organized by the local government and schools for the community.

Corporate Governance Code

Our Company has adopted the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. For the year ended 31 December 2016 (the "Review Period"), our Directors consider that our Company has complied with all the code provisions as set out in the CG Code, except for a deviation from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders. Due to other pre-arranged business commitments, Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the annual general meeting of the Company held on 13 May 2016.

Our Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders of our Company (the "Shareholders").

Set out below is a detailed discussion of the corporate governance practices adopted and observed by our Company during the Review Period.

Disclosure pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

On 5 May 2016, the Company as borrower and Xi Yuan BVI and Sunwell Trading (HK) Company Limited, the wholly-owned subsidiaries of the Company, as guarantors, entered into a facility agreement (the "Facility Agreement") with a syndicate of three banks which is arranged by The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Hang Seng Bank Limited and China Citic Bank International Limited as mandated lead arrangers and bookrunners, with HSBC also acting as the agent. Pursuant to the Facility Agreement, a 3.5-year term loan facility in the principal amount of US$115,000,000 (the "Facility") was made available to the Company on the terms and conditions stated therein for the purpose of refinancing the existing facilities and other general corporate funding requirements of the Group.

Under the Facility Agreement, it will be an event of default if at any time, on or after the date of the Facility Agreement, the following undertakings are not complied with: Mr. Ke Wentuo ("Mr. Ke"), the executive Director, chairman and controlling shareholder of the Company, and his associates (as defined in the Listing Rules) collectively, (i) do not or cease to own at least 30% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 30% of the voting rights in, the Company, free from any security; (ii) do not or cease to have management control over the Company; (iii) are not or cease to be the single largest shareholder of the Company; and (iv) Mr. Ke is not or ceases to be the chairman of the Board of the Company. On and at any time after the occurrence of such an event of default which is continuing, the agent may, and shall if so directed by the majority lenders, by notice to the Company: (i) cancel the whole or any part of the Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (ii) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (iii) declare that all or part of the Facility be payable on demand, whereupon they shall immediately become payable on demand by the agent on the instructions of the majority lenders.

Connected Transaction

On 28 October 2015 and 31 December 2015, Xi Yuan BVI, Cathay Fund, Xin Wing Group and Ms. Ke Jinzhen (the daughter of Mr. Ke Wentuo, the Chairman and an executive Director, a connected person of the Company), entered into a share subscription agreement and a supplemental share subscription agreement, respectively. Pursuant to the said agreements, Xi Yuan BVI agreed to purchase 41.0% of the equity interest in Xin Wing (the "Acquisition") at a maximum consideration of RMB533.0 million, which comprised the initial subscription price of RMB266.5 million and the supplemental subscription price of RMB266.5 million. Xin Wing Group is principally engaged in manufacturing and distribution of wall paper in China under its own branded wall paper and also on OEM basis. The Acquisition constituted a discloseable transaction and connected transaction of the Company under the Listing Rules. For further details of the Acquisition, please refer to the announcements of the Company dated 16 July 2015, 28 October 2015, 18 November 2015, 30 November 2015, 18 December 2015, 31 December 2015 and 21 September 2016 and the circular of the Company dated 31 December 2015.

The Acquisition was approved by the independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2016, and on 5 February 2016, Xi Yuan BVI completed the acquisition of 41.0% of the equity interest in Xin Wing.

On 26 July 2016, Xi Yuan BVI had issued a notice of offer to purchase the 20.0% equity interest in Xin Wing held by Cathay Fund and Cathay Fund had accepted the offer on the same date (the "Further Acquisition"). On 10 August 2016, Xi Yuan BVI entered into a memorandum of understanding with Xin Wing Group and Ms. Ke Jinzhen pursuant to which Xi Yuan BVI will purchase the 39.0% equity interest in Xin Wing held by Ms. Ke (the "Possible Acquisition"). As the Acquisition, the Further Acquisition and the Possible Acquisition are all related to the equity interests of Xin Wing, all these transactions shall be aggregated for the purpose of classification of transaction pursuant to Rule 14.22 of the Listing Rules. The above acquisitions shall constitute a major transaction and connected transaction of the Company under the Listing Rules. Upon completion of the above acquisitions, Xin Wing will become a wholly-owned subsidiary of the Company and its results will be consolidated into the results of the Group. As at 31 December 2016, the parties have not yet entered into definitive sale and purchase agreements and related documents to formalize the Further Acquisition and the Possible Acquisition.

Model Code for Securities Transactions

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the securities of our Company. Having made specific enquiry to all our Directors, all our Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the Review Period.

Board of Directors

(i) Board Composition

The Board currently comprises four executive Directors and three independent non-executive Directors.

As at the date of this annual report, the Board consists of the following Directors:

Executive directors
Mr. Ke Wentuo (Chairman)
Mr. Ke Jixiong (Chief Executive Officer)
Mr. Cao Xu
Mr. Zhang Guoduan

Independent non-executive directors
Prof. Zhang Daopei
Prof. Chen Lihong (Appointed on 11 March 2016)
Mr. Chow Kwok Wai

Among members of the Board, Mr. Ke Jixiong, the Chief Executive Officer of the Company, is the son of Mr. Ke Wentuo, the Chairman of the Board. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The roles of the Chairman and the Chief Executive Officer are segregated and assumed by Mr. Ke Wentuo and Mr. Ke Jixiong respectively.

The executive Directors, with assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility of formulating the business strategies and development plan of the Group and the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries.

Prof. Chen Lihui tendered his resignation as an independent non-executive Director with effect from 11 March 2016 in order to devote more time on his other education commitments. Prof. Chen Lihong was appointed as an independent non-executive Director with effect from 11 March 2016. Prof. Chen Lihong is the brother of Prof. Chen Lihui.

(ii) Board Functions and Duties

The principal functions and duties conferred to the Board include, among other things:

- convening general meetings and reporting the Board's work at general meetings;
- implementing resolutions passed by Shareholders in general meetings;
- deciding on business plans and investment plans;
- preparing annual financial budgets and final reports;
- formulating proposals for profit distributions, recovery of losses and for increases or reductions in the registered capital;
- developing and reviewing the Company's policies and practices on corporate governance; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

(iii) Board Meetings

During the Review Period, there were nine board meetings held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2015 and the interim results for the six months ended 30 June 2016.

Prior notices of Board meeting were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be discussed and approved. The company secretary of the Company (the "Company Secretary") had been responsible for keeping minutes for the Board meetings.

(iv) Attendance Record

During the Review Period, the Company held a total of nine Board meetings, one annual general meeting and one extraordinary general meeting. The following is the attendance record of the Board meetings held by the Board and the general meetings of the Company during the Review Period:

	Attendance	
	board meetings	**general meetings**
Executive directors		
Mr. Ke Wentuo (Chairman)	9/9	2/2
Mr. Ke Jixiong (Chief Executive Officer)	9/9	2/2
Mr. Cao Xu	9/9	0/2
Mr. Zhang Guoduan	9/9	0/2
Independent non-executive directors		
Prof. Zhang Daopei	7/9	0/2
Prof. Chen Lihui (Resigned on 11 March 2016)	1/3	0/1
Prof. Chen Lihong (Appointed on 11 March 2016)	5/6	0/1
Mr. Chow Kwok Wai	7/9	2/2

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experiences and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Mr. Chow Kwok Wai, is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has over 20 years of experience in accounting, financial management and corporate finance.

The Company has also received a written annual confirmation from each of the independent non-executive Directors in respect of their independence. After considering the factors set out in Rule 3.13 of the Listing Rules, the Board considers that all independent non-executive Directors continue to be independent throughout the Review Period.

(vi) Appointment and Re-election of Directors

According to the articles of association of the Company (the "Articles"), at each annual general meeting, one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been serving the longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

Mr. Ke Wentuo, Mr. Cao Xu and Mr. Chow Kwok Wai will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("2017 AGM") and, are eligible to offer themselves for re-election.

(vii) Terms of appointment of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 April 2016, and each of the independent non-executive Directors, except Prof. Chen Lihong, has entered into a service contract with the Company for a term of three years commencing from 11 March 2016, renewable upon expiry in both cases, subject to compliance of the Listing Rules and the Articles.

No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

(viii) Directors' Remuneration

The remuneration committee makes recommendations to the Board on the remuneration packages of the Directors and senior management personnel. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by taking reference to, inter alia, their duties, responsibilities, experiences and qualifications.

(ix) Directors' Training

According to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, function and duties of the Directors.

The Company had received from each of the Directors a confirmation that they have taken continuous professional training, together with supporting documentary proof in accordance with code provision A.6.5 of the CG Code.

Specifically, members of the Board have undertaken the following training activities:

Name of Director	Training activities undertaken
Mr. Ke Wentuo	Attendance at seminar relating to economy, perusal of industry publications and journals
Mr. Ke Jixiong	Attendance at seminar relating to corporate management, perusal of industry and management related publications and journals
Mr. Cao Xu	Attendance at seminars relating to economy and industry, perusal of industry publications and journals
Mr. Zhang Guoduan	Attendance at seminars relating to industry, perusal of industry publications and journals
Prof. Zhang Daopei	Attendance at seminars and tours relating to industry and knowledge relating to listed companies
Prof. Chen Lihong	Attendance at industry conferences and industry related academic tours
Mr. Chow Kwok Wai	Attendance at seminars and undertaking online trainings relating to accounting, management and the Listing Rules

Board Diversity Policy

Pursuant to the code provisions of the CG Code relating to board diversity, the Board approved a board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Audit Committee

Our Company has established an audit committee on 30 April 2010 with revised written terms of reference based upon the provisions and recommended practices of the CG Code adopted on 27 January 2016. The primary responsibilities of our audit committee are to, among other things, review and supervise financial reporting processes, risk management and internal control systems of the Group. As at 31 December 2016, our audit committee comprised Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of our audit committee.

During the Review Period, the audit committee had held two meetings and subsequently on 14 March 2017, the audit committee held a meeting. The members of the audit committee reviewed and discussed with the external auditors of the Company about the Group's audited financial statements for the years ended 31 December 2015 and 2016 and the unaudited interim financial statements for the six months ended 30 June 2016. They were of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

The following is the attendance record of the committee meetings held by the audit committee during the Review Period:

	Attendance at meetings
Mr. Chow Kwok Wai (Chairman)	2/2
Prof. Zhang Daopei	2/2
Prof. Chen Lihui (Resigned on 11 March 2016)	0/1
Prof. Chen Lihong (Appointed on 11 March 2016)	1/1

Our audit committee is responsible for making recommendations to our Board as to the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor and reviewing its independence, which are subject to the approval by our Board and at general meetings of our Company by our Shareholders.

Auditor's Remuneration

The total fee paid/payable to the external auditors of our Group was approximately RMB2.6 million and RMB0.3 million for the audit services and non-auditing services respectively for the year ended 31 December 2016. Non-auditing services mainly included review services. The audit committee is of the view that the auditors' independence is not affected by the services rendered.

Company Secretary

Mr. Wong Yat Sum is the Company Secretary. Mr. Wong has confirmed that, during the Review Period, he has taken no less than 15 hours of relevant professional training in compliance with the requirements of Rule 3.29 of the Listing Rules.

Directors' Responsibility on the Financial Statements

Our Directors acknowledge that it is their responsibility to prepare accounts of our Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to our Board to enable it to make informed assessments of the financial and other decisions.

Risk Management and Internal Control

Our Board is responsible for implementing, maintaining and reviewing the effectiveness of the risk management and internal control systems of our Company. The Company has an internal audit department which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board.

The internal control system has been designed to safeguard the assets of our Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations. For further details of the Company's risk management and internal control systems, please refer to the section headed "Business Risks and Risk Management" in the Report of the Directors of this annual report.

Our Board has conducted an annual review of the implemented systems and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The risk management and internal control systems are implemented to minimise risks to which our Group is exposed and used as a management tool for the day-to-day operations of our businesses. The systems can only provide reasonable but not absolute assurance against misstatements or losses.

For the year ended 31 December 2016, our Board considered that the risk management and internal control systems of our Group were adequate and effective and our Company had complied with the code provisions on risk management and internal control as set out in the CG Code during the Review Period.

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the CG Code. As at 31 December 2016, the nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr. Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee.

The nomination committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategies.

Before a prospective director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

During the Review Period, the nomination committee had held one meeting. The members of the nomination committee reviewed and discussed the current structure, size and composition of the Board and the remuneration of the senior management.

The following is the attendance record of the committee meeting held by the nomination committee during the Review Period:

	Attendance at meeting
Prof. Zhang Daopei (Chairman)	1/1
Prof. Chen Lihui (Resigned on 11 March 2016)	0/1
Prof. Chen Lihong (Appointed on 11 March 2016)	N/A
Mr. Ke Wentuo	1/1

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the CG Code. As at 31 December 2016, our remuneration committee comprised Mr. Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihong. Prof. Chen Lihong is the chairman of the remuneration committee.

The primary responsibilities of our remuneration committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of our Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Emolument Policies

The emolument policies of the Group are formulated based on performance of individual employees and on the basis of salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the profitability of our Group, our Group may also distribute discretionary bonuses to its employees as incentives for their contributions to our Group.

During the Review Period, the remuneration committee had held one meeting. The members of the remuneration committee reviewed and discussed the policies for the remuneration of executive Directors, the performances of executive Directors during the Review Period.

The following is the attendance record of the committee meeting held by the remuneration committee during the Review Period:

	Attendance at meeting
Prof. Chen Lihui (Chairman) (Resigned on 11 March 2016)	N/A
Prof. Chen Lihong (Chairman) (Appointed on 11 March 2016)	1/1
Prof. Zhang Daopei	1/1
Mr. Ke Wentuo	1/1

Meeting with Independent Non-executive Directors

During the Review Period, the Chairman of the Company held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 8 March 2016 to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views at the Board meetings without restrictions.

Corporate Governance Functions

The Board is responsible for performing the duties on corporate governance functions set out below:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations;
- reviewing and monitoring the training and continuous professional development of the Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report contained in the annual report of the Company.

Communication with Shareholders

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for Shareholders to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address Shareholders' queries;
2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to Shareholders to facilitate enforcement of Shareholders' rights;
3. Interim and annual results are announced as early as possible, to keep Shareholders informed of the Group's performances and operations; and
4. Updated key information of the Group is available on the Company's website to enable Shareholders and investors to have timely accesses to information about the Group.

Shareholders' Rights

Procedures by which Shareholders can convene an Extraordinary General Meeting ("EGM") and put forward proposals at general meetings of the Company

Pursuant to the Articles, each general meeting, other than an annual general meeting, shall be called an EGM.

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary at the Company's office in Hong Kong at Unit 1601, 16th Floor, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any Shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consolidation not less than 7 days prior to the date of such general meeting through the Company Secretary whose contact details are set out above.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary whose contact details are set out above.

Constitutional Documents

During the Review Period, there was no change in the constitutional documents of the Company.

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (hereinafter collectively referred to as our "Group") for the year ended 31 December 2016.

Corporate Reorganisation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 October 2009, under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through the corporate reorganisation undertaken in preparation of listing, our Company became the holding company of the Group on 14 January 2010. The Company's shares ("Shares") have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 May 2010.

Principal Activities

The principal activity of our Company is investment holding. Particulars of the subsidiaries of our Company are set out in note 32 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 42 of this report.

The Directors do not recommend declaration and payment of any final dividend for the year ended 31 December 2016 (For the year ended 31 December 2015: Nil).

No interim dividend was declared in the current financial year (2015: HK 4.1 cents per share has been paid).

Reserves

Movements in reserves of the Group during the year ended 31 December 2016 are set out in consolidated statement of changes in equity on page 44 of this report.

As at 31 December 2016, the reserves of our Group available for distribution to Shareholders amounted to RMB2,011,011,000 (As at 31 December 2015: RMB1,736,120,000).

Property, Plant and Equipment

Movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 26 to the consolidated financial statements.

Directors

Biographical details of the Directors during the year are set out in the section headed "Directors and senior management" on pages 12 to 15 of this report.

Financial Summary

A financial summary of the Group for the last five years are set out on page 90 of this report.

Borrowings

Details of bank borrowings of the Group as at 31 December 2016 are set out in note 24 to the consolidated financial statements.

Share Option Scheme

The following is a summary of the principal terms of the share option scheme (the "Scheme") adopted by a resolution of the Board and approved by the written resolution of all the Shareholders passed on 30 April 2010:

(1) The purpose of the Scheme

The purpose of the Scheme is to give the eligible persons (the "Eligible Persons") (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company to help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(2) Who may join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Employee"), any proposed Employee or any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Executive");

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an associate of any of the persons referred to in (a) to (f) above.

(3) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issues as at 27 May 2010, being 100,000,000 shares, which represented approximately 8.48% of the total issue share capital of the Company at the date of this report.

(4) Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

(5) Offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of our Company of HK$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the offer date. Such remittance shall in no circumstances be refundable.

To the extent that the offer of the grant of an Option is not accepted by the acceptance date, it will be deemed to have been irrevocably declined.

(6) Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

(7) Amount payable for Options

The amount payable on acceptance of an Option is HK$1.00.

(8) Subscription Price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

(9) Life of Share Option Scheme

Subject to the terms of this Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional (i.e. 27 May 2010), after which no further options will be granted or offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme. As of date of this report, the remaining life of the Scheme was about 3 years and 3 months.

As at 31 December 2016, no Options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

At no time during the year under review were there any rights to acquire benefits by means of the acquisition of securities of our Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was our Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors' and Chief Executive's Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation

As at 31 December 2016, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Ke Wentuo	L[1]	Interest in controlled corporation and interest of spouse[2]	694,237,500	58.71%
	S[1]	Interest in controlled corporation[3]	165,000,000	13.95%
Mr. Ke Jixiong	L[1]	Interest in controlled corporation[4]	41,930,000	3.55%

Notes

1: L: Long position; S: Short position.

2: The interest in 694,237,500 Shares comprise of:

(i) 665,560,500 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr. Ke Wentuo; and

(ii) 28,677,000 Shares held by Denron International Limited ("Denron"), which is wholly beneficially owned by Ms. Cai Lishuang. Mr. Ke Wentuo, being the spouse of Ms. Cai Lishuang, is deemed to be interested in the said 28,677,000 Shares held by Denron.

3: The short position in 165,000,000 Shares refers to the short position in the same number of Shares held by Smart Port

4: The long position in 41,930,000 Shares refers to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr. Ke Jixiong.

Except as disclosed above, none of the Directors nor the chief executive of our Company or their associates had any interest or short positions in any of the shares, underlying shares or debentures of our Company or any of its associated corporations as defined in the SFO.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2016, in addition to the interests disclosed under the paragraph headed "Directors' and Chief Executive's Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	L[1]	Beneficial owner[2]	665,560,500	56.28%
	S[1]	Beneficial owner[2]	165,000,000	13.95%
Ms. Cai Lishuang	L[1]	Interest in controlled corporation and interest of spouse[3]	694,237,500	58.71%
	S[1]	Interest in controlled corporation and interest of spouse[3]	165,000,000	13.95%
Cathay Special Paper Limited	L[1]	Beneficial owner[4]	101,747,500	8.60%

Notes

1: L: Long position; S: Short position.

2: Mr. Ke Wentuo is deemed to be interested in the Shares held by Smart Port by virtue of Smart Port being wholly owned by Mr. Ke Wentuo.

3: Ms. Cai Lishuang is deemed to be interested in the Shares held by Denron by virtue of Denron being wholly owned by Ms. Cai Lishuang. In addition, she is deemed to be interested in the Shares held by Smart Port, which is wholly owned by Mr. Ke Wentuo, by virtue of her being the spouse of Mr. Ke Wentuo.

4: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 31 December 2016, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

Other than the service contracts of the Directors, our Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of our Company during the year.

Transactions, Arrangement or Contracts of Significance

Save as disclosed in the section headed "Investment in wall paper business" in Business Review and Outlook, the section headed "Connected Transaction" in Corporate Governance Report and note 29 to the consolidated financial statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contract of significance for the provision of services to our Company or any of its subsidiaries by a controlling shareholder of our Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

Directors' Interests in Competing Business

None of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 5.6% (2015: 5.5%) and 25.0% (2015: 25.4%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 57.5% (2015: 38.6%) and 89.9% (2015: 90.3%) of the Group's total purchases respectively.

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of our Company's share capital) had an interest in the top five customers and suppliers of our Group.

The Group establishes good relationships with its customers and does not foresee any concentration risks from an individual customer. Our good customer relationships have also provided the Group with opportunities to interact with customers so as to keep the Group abreast of the latest trends of the market.

The Group has cultivated long-term relationships with its suppliers and the Directors believe that it enables the Group to achieve stability in its procurement of raw materials.

Deed of Non-competition

Each of the controlling shareholders of the Company (the "Controlling Shareholders"), namely Mr. Ke Wentuo and Smart Port, has confirmed to the Company of his or its compliance with the non-compete undertakings provided to the Company under the Deed of Non-competition (as defined in the prospectus of our Company dated 14 May 2010). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the Controlling Shareholders.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the articles of association of our Company or the Companies Law of the Cayman Islands where our Company is incorporated.

Purchase, Sale or Redemption of the Listed Securities of our Company

On 25 October 2016, the Company announced that the Directors had approved a share buy-back program pursuant to which the Company will repurchase the Shares from the open market, with immediate effect, until expiry of the prevailing share buy-back mandate granted to the Board at the annual general meeting of the Company held on 13 May 2016 upon conclusion of the forthcoming 2017 AGM.

During the year ended 31 December 2016, the Company repurchased a total of 3,671,000 Shares of HK$0.10 per share from the open market at an aggregate consideration of approximately RMB6,342,000 (including transaction costs) and all of repurchased Shares were subsequently cancelled on 19 January 2017. Details of the repurchased Shares during the period are set out as follows:

Month of repurchases	Number of ordinary shares of HK$0.10 each	Price paid per share Highest	Price paid per share Lowest	Aggregate consideration paid (including expenses)
		HK$	HK$	RMB'000
November 2016	352,000	1.83	1.78	563
December 2016	3,319,000	2.01	1.90	5,779
	3,671,000			6,342

The Directors believed that repurchases of Shares were in the best interests of the Company and the Shareholders and that such repurchases of Shares would lead to an enhancement of the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

In January 2017, the Company repurchased a total of 3,800,000 Shares from the open market at an aggregate consideration of approximately RMB6.7 million (including transaction costs) which were all subsequently cancelled on 19 January 2017.

Equity-linked Agreements

Save as disclosed in the sections headed "Share Option Scheme", as at the end of and during the year ended 31 December 2016, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

Permitted Indemnity Provision

Pursuant to Article 164 of the Articles, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which the Directors or any of the Directors shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of the Directors shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

Business Review

The business review of the Group for the year ended 31 December 2016 as set out in the section headed "Business Review and Outlook" in this annual report is expressly included in this report and forms part of this directors' report.

Compliance with Laws and Regulations

During the year ended 31 December 2016 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

Business Risks and Risk Management

The Board acknowledges its responsibility for the effectiveness of the internal control and risk management systems of the Group, which are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

Business Risk

The Group's business risks include rapid change in the general market conditions, downturn pressure on the overall Chinese economy and price competition from other market operators. The Board is responsible for the overall management of the business and review of material business decisions involving material risks exposures from time to time.

Financial Risk

The Group adopts financial risk management policies to manage its currency risk, interest rate risk, credit risk, liquidity risk. The Board also reviews monthly management accounts, capital structure and key operating data of the Group.

Compliance Risk

The Board adopts procedures to ensure the Company is in compliance with the applicable laws, rules and regulations. The Company engages professional advisors and consultants to keep the Company abreast of the latest developments in the regulatory environment, including legal, financial, environmental and operational developments. The Company also adopts a strict policy in prohibiting any unauthorized use or dissemination of confidential or inside information.

Operational Risk

The Group adopts procedures to manage its operational risk such as inadequate management efficiency, inefficient raw material procurement and production facilities utilization.

The Board has conducted a review of the effectiveness of the Group's internal control and risk management systems covering business, financial, compliance and operational risks of the Group and is satisfied that such systems are effective and adequate.

Employees

The sustainability of our business relies on the growth of the employees of the Group. The Board considers that employees are one of the most important assets of the Group and is committed to employees' career development, offering competitive remuneration packages and assuring health and safety of our employees.

Environmental Protection

We are committed to preserving and protecting the environment in every aspect of our operation. Over the years, the Group has been fully committed to environmental protection. The management implemented various measures and controls to ensure that our duties to the environment have been fulfilled. Periodic internal control meetings are held to review environmental issues in the production plants among a team of qualified professionals, to update environmental laws and regulations and to make valuable suggestions and recommendations for improvement. The management will put more effort to ensure high environmental standards are persistently met in key areas including the use of recycled raw materials, water conservation and emission control.

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and up to the date of this report, our Company has maintained sufficient public float.

Auditor

With effect from 22 June 2016, Deloitte Touche Tohmatsu ("Deloitte") had resigned as auditor of the Group as Deloitte and the Company could not reach a consensus on the audit fees for the financial year ending 31 December 2016. Deloitte had confirmed that there were no circumstances connected with its resignation which it considered should be brought to the attention of the Shareholders. The Board had confirmed that there was no disagreement between Deloitte and the Company, and there were no other matters in relation to the resignation of the auditor that need to be brought to the attention of the Shareholders.

RSM Hong Kong has been appointed as auditor of the Company to fill the casual vacancy following the resignation of Deloitte and shall hold office until the conclusion of the 2017 AGM.

A resolution will be proposed at the 2017 AGM to appoint RSM Hong Kong as our auditor.

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 14 March 2017

TO THE MEMBERS OF
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 89 which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matter we identified is:

Accounting for the acquisition of an associate

Key Audit Matter	How our audit addressed the Key Audit Matter
Accounting for the acquisition of an associate Refer to note 19 to the consolidated financial statements. During the year the Group acquired 41% equity interests in an associate, Xin Wing Enterprises Limited ("Xin Wing"). Xin Wing and its subsidiaries are principally engaged in the manufacturing and sale of wallpaper in the People's Republic of China. Upon acquisition of the associate, management is required to determine the Group's share of the fair value of the associate's identifiable assets and liabilities and the goodwill relating to the associate, which is included in the carrying amount of the investment. This requires the exercise of significant management judgement to ensure the completeness of the assets and liabilities identified and in relation to any fair value adjustments to the associate's book values. There is a risk that the cost of the investment is not allocated correctly, which could impact the Group's share of the associate's profit or loss after acquisition. Management engaged an independent external valuer to assist with the determination of the fair values.	Our procedures in relation to the accounting for the acquisition of an associate included: • Evaluation of the external valuer's competence, capabilities and objectivity; • Assessing the appropriateness of the valuation methodologies applied and valuation inputs, and the integrity of the valuation models with the assistance of our internal valuation specialists; • Assessing the completeness and appropriateness of the accounting by reviewing the key documents associated with the acquisition including the share subscription agreement, Xin Wing management accounts, memorandum and articles of association of Xin Wing, the announcement and circular issued by the Group for the disclosable and connected transaction in relation to the acquisition of equity interests in Xin Wing; • Visiting Xin Wing to understand the nature of its operations and assess the condition of its assets; and • Assessing the reasonableness of the assumptions used in the valuation models based on the past performance of Xin Wing, the current operating environment and our knowledge of the industry.

Other Information

The directors are responsible for the Other Information. The Other Information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Liu Eugene.

RSM Hong Kong
Certified Public Accountants
Hong Kong
14 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016	2015
		RMB'000	RMB'000
Revenue	7	1,799,488	1,702,664
Cost of sales		(1,244,966)	(1,205,243)
Gross profit		554,522	497,421
Other income and other gains and losses	9	(65,919)	(17,193)
Share of profit of an associate		94,000	—
Selling and distribution expenses		(10,603)	(10,510)
Administrative expenses		(82,479)	(82,406)
Finance costs	10	(72,032)	(67,907)
Other expenses		(30,241)	(33,565)
Profit before tax	11	387,248	285,840
Income tax expense	12	(76,615)	(61,959)
Profit and total comprehensive income for the year attributable to owners of the Company		310,633	223,881
		RMB	RMB
Earnings per share			
Basic	16	0.262	0.189

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,296,248**	2,138,911
Prepaid lease payments	18	**325,504**	334,110
Investment in an associate	19	**627,000**	—
Derivative financial assets		**7,969**	—
Deposits paid for acquisition of property, plant and equipment		**110,143**	74,092
Deposits paid for acquisition of prepaid lease payments		**39,855**	39,855
		3,406,719	2,586,968
CURRENT ASSETS			
Inventories	20	**74,662**	115,643
Trade and other receivables	21	**740,072**	704,053
Prepaid lease payments	18	**8,229**	7,916
Bank balances and cash	22	**465,179**	735,222
		1,288,142	1,562,834
CURRENT LIABILITIES			
Trade and other payables	23	**248,629**	235,757
Income tax payables		**19,231**	16,077
Bank borrowings	24	**519,631**	873,226
		787,491	1,125,060
NET CURRENT ASSETS		**500,651**	437,774
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,907,370**	3,024,742
NON-CURRENT LIABILITIES			
Bank borrowings	24	**1,161,467**	590,130
Deferred taxation	25	**24,500**	17,500
		1,185,967	607,630
NET ASSETS		**2,721,403**	2,417,112
CAPITAL AND RESERVES			
Share capital	26	**102,501**	102,501
Reserves	27	**2,618,902**	2,314,611
TOTAL EQUITY		**2,721,403**	2,417,112

The consolidated financial statements on pages 42 to 89 were approved and authorised for issue by the Board of Directors on 14 March 2017 and are signed on its behalf by:

Director　　　　　　Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated profits**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January 2015	93,842	91,892	505,684	1,610,530	2,301,948
Profit and total comprehensive income for the year	—	—	—	223,881	223,881
Bonus issue (Note 26)	8,624	(8,624)	—	—	—
Dividends recognised as distribution (Note 15, 26)	35	648	—	(109,400)	(108,717)
Transferred to accumulated profits (Note)	—	(39,900)	—	39,900	—
Appropriation	—	—	28,791	(28,791)	—
At 31 December 2015 and 1 January 2016	102,501	44,016	534,475	1,736,120	2,417,112
Profit and total comprehensive income for the year	—	—	—	**310,633**	**310,633**
Share repurchased (Note 26)	—	—	**(6,342)**	—	**(6,342)**
Appropriation	—	—	**35,742**	**(35,742)**	—
At 31 December 2016	**102,501**	**44,016**	**563,875**	**2,011,011**	**2,721,403**

Note: Pursuant to board resolutions of directors, the directors were authorised and resolved to transfer RMB Nil (2015: RMB39,900,000) from share premium account to accumulated profits. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	387,248	285,840
Adjustments for:		
Depreciation of property, plant and equipment	108,049	97,713
Finance costs	72,032	67,907
Amortisation of prepaid lease payments	8,293	8,005
Loss on disposals of property, plant and equipment	8	224
Interest income	(2,156)	(14,169)
Fair value gains on foreign currency forward contracts	(7,969)	—
Share of profit of an associate	(94,000)	—
Operating cash flows before working capital changes	471,505	445,520
Decrease (increase) in inventories	40,981	(1,191)
Increase in trade and other receivables	(36,019)	(78,272)
(Decrease) increase in trade and other payables	(474)	56,053
Cash generated from operations	475,993	422,110
Income tax paid	(66,461)	(52,175)
NET CASH GENERATED FROM OPERATING ACTIVITIES	409,532	369,935
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	(283,301)	(202,013)
Payments for acquisition of prepaid lease payments	—	(39,855)
Payments for acquisition of an associate	(533,000)	—
Withdrawal of pledged bank deposits	—	11,000
Interest received	2,156	14,169
NET CASH USED IN INVESTING ACTIVITIES	(814,145)	(216,699)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings raised	1,500,995	744,171
Repayments of bank borrowings	(1,283,253)	(716,034)
Interest paid	(76,830)	(72,818)
Payments on repurchase of shares	(6,342)	—
Dividend paid	—	(108,717)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	134,570	(153,398)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(270,043)	(162)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	735,222	735,384
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	465,179	735,222

1. GENERAL

Youyuan International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port Holdings Limited (incorporated in the British Virgin Islands) and its ultimate controlling shareholder is Mr. Ke Wentuo ("Mr. Ke") who is also the Chairman of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and an associate are set out in note 32 and 19 respectively.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

International Accounting Standard Board has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policy in note 4 (e.g. derivative financial instruments that are measured at fair value).

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of new and revised IFRSs

International Accounting Standard Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2016. Of these, the following new or revised IFRSs are relevant to the Group:

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2016. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7 Statement of Cash Flows: Disclosure initiative	1 January 2017
Amendments to IAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
Amendments to IFRS 2 Share-based Payment: Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 9 Financial Instruments

The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

IFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS 39 are carried forward largely unchanged.

IFRS 9 substantially overhauls the hedge accounting requirements in IAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in IFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is unable to estimate the impact of the new standard on the consolidated financial statements until a more detailed analysis is completed.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 30, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately RMB386,000 as at 31 December 2016. The Group will need to perform a more detailed assessment in order to determine the new assets and liabilities arising from these operating leases commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

4. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount 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 the owners of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis at the following rates:

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	3 - 20 years
Office equipment	3 - 10 years
Motor vehicles	5 - 8 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents properties under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Leases

The Group as lessee

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Derivative financial instruments

All derivatives are initially recognised and subsequently measured at fair value.

Changes in the fair value of derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss as they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the 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 benefit 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of 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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and 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 differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

The carrying amount of deferred tax assets is reviewed at the end of each 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year. The carrying amount of property, plant and equipment is RMB2,296,248,000 (2015: RMB2,138,911,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade receivables is RMB730,241,000 (2015: RMB702,496,000). There is no allowance for doubtful debts as at 31 December 2016 and 2015.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets:		
Derivative financial assets	**7,969**	—
Loans and receivables (including cash and cash equivalents)	**1,195,420**	1,437,718
Financial liabilities:		
Amortised cost	**1,929,727**	1,660,281

Financial risk management objectives and policies

The Group's major financial instruments include derivative financial assets, trade and other receivables, bank balances and cash, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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 effective manner.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Currency risk

The Group has financial assets and liabilities denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities of bank balances and cash and bank borrowings at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar ("HK$")	**30,716**	3,053	**90,361**	120,336
United States Dollar ("US$")	**16,883**	2,522	**1,249,177**	703,420

Sensitivity analysis

The Group is mainly exposed to foreign currency risk relating to HK$ and US$.

The following table details the Group's sensitivity to a 10% (2015: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% (2015: 10%) is the sensitivity rate used for management's assessment of the reasonably possible change in foreign exchange rates as the economy become more volatile. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items. A positive number below indicates an increase in post-tax profit where RMB strengthens 10% (2015: 10%) against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 10% (2015: 10%) weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

	HK$		US$	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**5,964**	8,796	**123,229**	52,568

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk

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 amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

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 monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period 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 the Group's bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is solely in the People's Republic of China (the "PRC"), as at 31 December 2016 and 2015.

The Group has concentration of credit risk as 26% (2015: 25%) of the total trade receivables was due from the Group's five largest customers in the paper industry in PRC as at 31 December 2016. The management is of the view that these trade debtors of the Group have good trade records without default history and consider that the trade receivables from these five customers are recoverable. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk

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.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group had available unutilised banking facilities of approximately RMB1,098,839,000 (2015: RMB1,045,600,000).

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 maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
At 31 December 2016						
Trade and other payables		248,629	—	—	248,629	248,629
Bank borrowings						
– fixed rate	5.97	113,019	—	—	113,019	110,860
– variable rate	3.52	458,510	396,718	833,727	1,688,955	1,570,238
		820,158	396,718	833,727	2,050,603	1,929,727
At 31 December 2015						
Trade and other payables		196,925	—	—	196,925	196,925
Bank borrowings						
– fixed rate	5.49	49,242	—	—	49,242	47,000
– variable rate	4.24	869,421	615,848	—	1,485,269	1,416,356
		1,115,588	615,848	—	1,731,436	1,660,281

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see notes 24 for details of these borrowings).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider hedging significant interest rate risk should the need arises.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Interest rate risk (continued)

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk of bank borrowings is mainly concentrated on the fluctuation of Benchmark Borrowing Rate ("Benchmark Borrowing Rate") of The People's Bank of China ("PBOC"), Hong Kong Interbanks Offered Rate ("HIBOR") and London Interbanks Offered Rate ("LIBOR") arising from the Group's RMB, HK$ and US$ denominated borrowings. The interest rates of bank balances are mainly based on the benchmark saving rate quoted by PBOC.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rate risk which relates primarily to variable-rate bank balances and bank borrowings (see notes 22 and 24 for details of these balances). The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

For the bank balances, if the interest rates for benchmark saving rate had been increased/decreased by 20 (2015: 20) basis points and other variables were held constant, as the economy become more volatile and the Group's post-tax profit for the year ended would increase/decrease by approximately RMB676,000 (2015: RMB1,103,000) for the year ended 31 December 2016.

For the bank borrowings, if interest rates had been increased/decreased by 75 (2015: 75) basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB11,435,000 (2015: RMB7,967,000) for the year ended 31 December 2016.

Fair value

The carrying amounts of Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

Fair value estimation

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

As at 31 December 2016, derivate financial assets of the Group under recurring fair value measurement were foreign currency forward contracts amounting to RMB7,989,000 (2015: Nil). These foreign currency forward contacts are measured at fair value on Level 2 fair value measurement. The valuation technique used in this fair value measurements is discounted cash flows and the inputs are forward exchange rate, contract forward rates and discount rates.

7. REVENUE

An analysis of the Group's revenue is as follows:

	2016	2015
	RMB'000	RMB'000
Revenue from the sales of:		
Wrapping tissue paper	**1,347,405**	1,288,531
Copy paper	**166,085**	159,509
Wall paper backing paper	**131,652**	101,159
Other products	**154,346**	153,465
	1,799,488	1,702,664

8. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company ("Chief Executive Officer"), being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered. This is also the basis upon which the Group is organised. No operation segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating segments under IFRS 8 "Operating segments" are as follows:

- Wrapping tissue paper – manufacturing for sale of wrapping tissue paper;
- Copy paper – manufacturing for sale of copy paper;
- Wall paper backing paper – manufacturing for sale of wall paper backing paper; and
- Other products – manufacturing for sale of paper towels and ivory boards.

8. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wrapping tissue paper	**1,347,405**	1,288,531	**444,140**	409,438
Copy paper	**166,085**	159,509	**52,979**	47,967
Wall paper backing paper	**131,652**	101,159	**35,376**	21,664
Other products	**154,346**	153,465	**22,027**	18,352
	1,799,488	1,702,664	**554,522**	497,421
Other income and other gains and losses			**(65,919)**	(17,193)
Share of profit of an associate			**94,000**	—
Selling and distribution expenses			**(10,603)**	(10,510)
Administrative expenses			**(82,479)**	(82,406)
Finance costs			**(72,032)**	(67,907)
Other expenses			**(30,241)**	(33,565)
Profit before tax			**387,248**	285,840

Revenue reported above represents revenue generated from external customers. There were no intersegment sales during both years.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to the Chief Executive Officer for the purposes of resources allocation and performance assessment.

8. SEGMENT INFORMATION (continued)

(c) Segment assets

	2016 RMB'000	2015 RMB'000
Wrapping tissue paper	**804,060**	759,857
Copy paper	**139,890**	119,926
Wall paper backing paper	**199,751**	185,324
Other products	**112,426**	114,820
Total segment assets	**1,256,127**	1,179,927
Unallocated		
– Property, plant and equipment	**1,053,862**	976,714
– Prepaid lease payments	**333,733**	342,026
– Investment in an associate	**627,000**	—
– Derivative financial assets	**7,969**	—
– Deposit paid for acquisition of property, plant and equipment	**110,143**	74,092
– Deposit paid for acquisition of prepaid lease payments	**39,855**	39,855
– Inventories	**60,921**	97,913
– Trade and other receivables	**740,072**	704,053
– Bank balances and cash	**465,179**	735,222
Consolidated assets	**4,694,861**	4,149,802

Segment assets include certain property, plant and equipment and inventories used specifically for the production of different products.

(d) Segment liabilities

Segment liabilities are not presented as liabilities are generally incurred for all operating segments and not reported separately to the Chief Executive Officer.

8. SEGMENT INFORMATION (continued)

(e) Other segment information

	Wrapping tissue paper RMB'000	Copy paper RMB'000	Wallpaper backing paper RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Year ended 31 December 2016						
Addition to property, plant and equipment	**81,141**	**26,663**	**25,214**	**3,521**	**128,855**	**265,394**
Depreciation and amortisation	**36,022**	**5,336**	**10,135**	**5,821**	**59,028**	**116,342**
Loss on disposals of property, plant and equipment	**–**	**–**	**–**	**–**	**8**	**8**
Year ended 31 December 2015						
Addition to property, plant and equipment	51,712	15,381	12,488	2,912	65,529	148,022
Depreciation and amortisation	35,259	5,331	9,418	6,581	49,129	105,718
Loss on disposals of property, plant and equipment	9	–	–	–	215	224

(f) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). All non-current assets of the Group are located in the PRC.

All of the Group's revenue from external customers is attributed to the Group entities' country of domicile (i.e. the PRC).

(g) Information about major customers

In both years, there are no individual customers with sales of 10% or more of the Group's total revenue.

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Bank interest income	**2,156**	14,169
Loss on disposals of property, plant and equipment	**(8)**	(224)
Net foreign exchange losses	**(69,511)**	(31,688)
Government grants (Note)	**1,295**	194
Others	**149**	356
	(65,919)	(17,193)

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC for developing innovative production technology and maintaining a good reputation in the business community in 2015 and 2016. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	**77,429**	72,818
Less: Amounts capitalised	**(5,397)**	(4,911)
	72,032	67,907

The weighted average capitalisation rate on funds borrowed generally is at a rate of 6.2% per annum (2015: 6.7%).

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Employee benefits expenses (including directors):		
Salaries, wages and other benefits	**65,279**	60,505
Retirement benefits scheme contributions	**3,240**	2,748
	68,519	63,253
Depreciation of property, plant and equipment	**108,049**	97,713
Amortisation of prepaid lease payments	**8,293**	8,005
Total depreciation and amortisation expenses	**116,342**	105,718
Auditors' remuneration	**2,998**	2,241
Research and development cost recognised as an expense (included in other expenses)	**30,241**	33,565
Cost of inventories recognised as an expense	**1,244,966**	1,205,243

12. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Income tax expense:		
Current tax		
Charge for the year	**69,615**	54,959
Deferred tax (Note 25)		
Charge for the year	**7,000**	7,000
	76,615	61,959

12. INCOME TAX EXPENSE (continued)

The Company and Xi Yuan Paper Limited ("Xi Yuan BVI") were incorporated in the Cayman Islands and British Virgin Islands, respectively, and are not subject to income tax.

Sunwell Trading (HK) Company Limited ("Sunwell") was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax for both years.

The income tax expense for the year represents the PRC Enterprise Income Tax ("EIT") which is calculated at the prevailing tax rate on the taxable income of the Group entities in the PRC.

Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"), Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") (collectively referred as the "PRC Subsidiaries") are Foreign Investment Enterprises registered in the PRC and are subject to the PRC statutory EIT tax rate of 25% for both years.

Xiyuan obtained a high and new technology enterprise certificate in 2016 and was approved in 2016 to entitle to a preferential tax rate of 15% for three years period from 2016 to 2018, subject to annual review by the relevant tax authority.

Youlanfa obtained a high and new technology enterprise certificate in 2015 and was approved in 2015 to entitle to a preferential tax rate of 15% for three years period from 2015 to 2017, subject to annual review by the relevant tax authority.

In current year, the preferential tax rate of 15% has applied to Xiyuan and Youlanfa.

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**387,248**	285,840
Tax at the PRC statutory EIT rate of 25%	**96,812**	71,460
Effect of tax exemptions and tax concession	**(37,540)**	(30,928)
Deferred tax on PRC dividend withholding tax	**7,000**	7,000
Tax effect of expenses not deductible for tax purpose	**32,728**	13,378
Tax effect of share of profit of an associate	**(23,500)**	—
Others	**1,115**	1,049
Income tax expense	**76,615**	61,959

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

(a) Directors' emoluments

The emoluments paid or payable to each of the eight (2015: seven) directors and the Chief Executive Officer were as follows:

For the year ended 31 December 2016

	Directors								
	Mr. Ke	Mr. Ke Jixiong	Mr. Cao Xu	Mr. Zhang Guoduan	Prof. Zhang Daopei	Prof. Chen Lihui (note 1)	Prof. Chen Lihong (note 2)	Mr. Chow Kwok Wai	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	120	—	120	155	395
Other emoluments									
Salaries and other benefits	1,414	1,145	167	167	—	—	—	—	2,893
Contributions to retirement benefits schemes	16	16	12	16	—	—	—	—	60
Performance related incentive payments									
Share-based payment	—	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—	—
Total emoluments	1,430	1,161	179	183	120	—	120	155	3,348
Pensions paid to directors	—	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive	—	—	—	—	—	—	—	—	—
	1,430	1,161	179	183	120	—	120	155	3,348

Note:

1) Resigned on 11 March 2016

2) Appointed on 11 March 2016

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (continued)

(a) Directors' emoluments (continued)

For the year ended 31 December 2015

	Directors							
	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihui RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	113	—	146	259
Other emoluments								
Salaries and other benefits	1,292	1,047	145	145	—	—	—	2,629
Contributions to retirement benefits schemes	16	16	12	14	—	—	—	58
Performance related incentive payments								
Share-based payment	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—
Total emoluments	1,308	1,063	157	159	113	—	146	2,946
Pensions paid to directors	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive	—	—	—	—	—	—	—	—
	1,308	1,063	157	159	113	—	146	2,946

Mr. Ke Jixiong is a director who is also the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

For the years ended 31 December 2016 and 2015, neither the Chief Executive Officer nor any of the directors waived or agreed to waive any emoluments.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

(b) Directors' material interests in transactions, arrangements and contracts

Save as disclosed in note 29, no contract of significant in relation to the Group's business to which the Company or subsidiaries was a party, and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2015: four) were directors and the Chief Executive Officer of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining two (2015: one) individuals were as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	1,245	972
Retirement benefit scheme contributions	24	15
	1,269	987

Their emoluments were within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000 (equivalent to Nil to RMB895,000)	1	—
HK$1,000,001 to HK$1,500,000 (equivalent to RMB895,001 to RMB1,342,500)	1	1

No emoluments have been paid to any of the directors or the highest paid individuals as an inducements to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2016 and 2015.

15. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2015 final dividend of Nil		
(2015: 2014 final dividend of HK8.0 cents per share)	—	69,500
2016 interim dividend of Nil		
(2015: 2015 interim dividend of HK4.1 cents per share)	—	39,900
	—	109,400

15. DIVIDENDS (continued)

On 8 May 2015, a final dividend of HK8.0 cents per share in respect of the year ended 31 December 2014 was approved by shareholders at annual general meeting of the Company. Shareholders were given an option to elect to receive the final dividend in the form of newly issued shares, in lieu of cash (the "Scrip Dividend Scheme"). Pursuant to the Scrip Dividend Scheme, 436,339 shares at market price of HK$1.94 per share, amounting to HK$847,000 (equivalent to approximately RMB683,000), were issued and allotted and cash dividend of approximately HK$85,393,000 (equivalent to approximately RMB68,817,000) was paid.

On 14 March 2017, the Board does not recommend declaration and payment of any final dividend in respect of the year ended 31 December 2016 (2015: Proposed final dividend of Nil).

16. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

	2016	2015
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of calculating basic earnings per share	**310,633**	223,881

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,186,072,075**	1,186,039,090

No diluted earnings per share are presented as there were no potential ordinary shares outstanding during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2015	1,016,038	1,076,824	13,176	8,051	324,383	2,438,472
Additions	—	395	716	77	146,834	148,022
Transfer	94,797	180,469	33	—	(275,299)	—
Disposals/written off	(101)	(988)	(206)	(152)	—	(1,447)
At 31 December 2015 and 1 January 2016	**1,110,734**	**1,256,700**	**13,719**	**7,976**	**195,918**	**2,585,047**
Additions	—	**51**	**98**	**142**	**265,103**	**265,394**
Transfer	**54,631**	**237,399**	**86**	—	**(292,116)**	—
Disposals/written off	—	—	**(82)**	—	—	**(82)**
At 31 December 2016	**1,165,365**	**1,494,150**	**13,821**	**8,118**	**168,905**	**2,850,359**
ACCUMULATED DEPRECIATION						
At 1 January 2015	(115,827)	(220,536)	(9,288)	(3,995)	—	(349,646)
Provided for the year	(32,236)	(63,537)	(1,236)	(704)	—	(97,713)
Disposals/written off	19	889	185	130	—	1,223
At 31 December 2015 and 1 January 2016	**(148,044)**	**(283,184)**	**(10,339)**	**(4,569)**	—	**(446,136)**
Provided for the year	**(33,940)**	**(72,073)**	**(1,275)**	**(761)**	—	**(108,049)**
Disposals/written off	—	—	**74**	—	—	**74**
At 31 December 2016	**(181,984)**	**(355,257)**	**(11,540)**	**(5,330)**	—	**(554,111)**
CARRYING AMOUNT						
At 31 December 2016	**983,381**	**1,138,893**	**2,281**	**2,788**	**168,905**	**2,296,248**
At 31 December 2015	962,690	973,516	3,380	3,407	195,918	2,138,911

Buildings are located on the land in the PRC which are held under medium-term lease.

The Group has pledged several buildings with a carrying amount of RMB181,103,000 (2015: RMB232,237,000) to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	**333,733**	342,026
Analysed for reporting purpose as:		
– Current assets	**8,229**	7,916
– Non-current assets	**325,504**	334,110
	333,733	342,026

The Group's prepaid lease payments represent the payments for land use rights situated in the PRC. The remaining unexpired lease term of the leasehold lands is in range of 34 to 45 years (2015: 35 to 46 years) for the year ended 31 December 2016.

The Group has pledged certain of its leasehold lands in the PRC with a carrying amount of RMB56,838,000 (2015: RMB228,446,000) to secure banking facilities granted to the Group.

19. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Unlisted investment:		
Cost of investment in an associate, includes goodwill	**533,000**	—
Share of post-acquisition profits and other comprehensive income	**94,000**	—
	627,000	—

Details of the Group's associate at 31 December 2016 are as follows:

Name	Place of incorporation	Principal place of business	Paid-up issued share capital	Percentage of ownership interest and voting power 2016	2015	Principal activities
Xin Wing Enterprises Limited ("Xin Wing")	British Virgin Islands	PRC	50,000 ordinary shares of US$1 each	**41%**	—	Manufacturing and distribution of wallpaper in the PRC

On 5 February 2016, Xi Yuan BVI completed its acquisition of 41.0% equity interests in Xin Wing which originally wholly owned by Ms. Ke Jinzhen (the daughter of Mr. Ke Wentuo, the Chairman and executive Director of the Company, a connected person of the Company) at a consideration of RMB533,000,000.

19. INVESTMENT IN AN ASSOCIATE (continued)

The following table shows the financial information of Xin Wing. The associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the IFRS financial information of the associate.

	RMB'000
At 31 December:	
Non-current assets	923,483
Current assets	980,516
Non-current liabilities	(15,851)
Current liabilities	(385,708)
Net assets	1,502,440
Year ended 31 December:	
Revenue	800,346
Profit after tax	250,495
Other comprehensive income	742
Total comprehensive income	251,237
Dividend received from the associate	—

Reconciliation of the above summariesed financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements as below:

	RMB'000
Net assets of Xin Wing	1,502,440
Proportion of the Group's ownership of 41.0%	616,000
Goodwill	11,000
Carrying amount of the Group's interest in Xin Wing	627,000

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**60,878**	98,521
Work in progress	**90**	169
Finished goods	**13,694**	16,953
	74,662	115,643

21. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**730,241**	702,496
Other prepayments	**993**	967
Other tax recoverable	**8,838**	590
	740,072	704,053

The Group allows an average credit period of 120 days to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	**197,312**	194,276
31 to 60 days	**190,996**	189,485
61 to 90 days	**193,832**	171,323
91 to 120 days	**148,101**	147,412
	730,241	702,496

The carrying amount of the Group's trade receivables is denominated in RMB.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired has good repayment history and no impairment is considered necessary.

As at 31 December 2016 and 2015, no trade receivable balance was past due nor impaired. The Group does not hold any collateral over the trade balances. The Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term deposits, mainly denominated in RMB, with an original maturity of three months or less.

Bank balances of the Group carry market interest rates of range from 0.01% to 1.95% (2015: 0.01% to 2.70%) per annum as at 31 December 2016.

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated cash and cash equivalents and short-term bank deposits out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

23. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Trade payables	**175,641**	186,789
Other payables for acquisition of plant and equipment	**22,883**	10,136
Other tax payables	**28,896**	19,030
Accrued staff costs and employee social security fund	**7,436**	7,443
Accrued electricity expenses	**5,761**	8,194
Other accrued expenses	**8,012**	4,165
	248,629	235,757

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Within 30 days	**80,140**	99,618
31 to 90 days	**95,501**	87,171
	175,641	186,789

The carrying amount of the Group's trade payables is denominated in RMB.

Trade payables principally comprise amounts outstanding for purchase of goods. The average credit period for purchase of goods is 30 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

24. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Carrying amount repayable:		
Within one year	519,631	873,226
More than one year, but not exceeding two years	362,270	590,130
More than two years, but not exceeding five years	799,197	—
	1,681,098	1,463,356
Less: Amounts due within one year shown under current liabilities	(519,631)	(873,226)
Amounts shown under non-current liabilities	1,161,467	590,130
Analysed as:		
Fixed-rate borrowings	110,860	47,000
Variable-rate borrowings	1,570,238	1,416,356
	1,681,098	1,463,356

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rate:		
Fixed-rate borrowings		
RMB	5.96%	5.48%
Variable-rate borrowings		
HK$	HIBOR plus 1.30% to 2.6%	HIBOR plus 1.30% to 1.75%
US$	LIBOR plus 1.75% to 2.75%	LIBOR plus 2.75%
RMB	110% of Benchmark Borrowing Rate to 120% of Benchmark Borrowing Rate	101% of Benchmark Borrowing Rate to 166% of Benchmark Borrowing Rate

24. BANK BORROWINGS (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
Amounts shown under current liabilities:		
Fixed-rate borrowings		
RMB	**110,860**	47,000
Variable-rate borrowings		
HK$	**79,621**	120,336
US$	**121,450**	354,750
RMB	**207,700**	351,140
	519,631	873,226
Amounts shown under non-current liabilities:		
Variable-rate borrowings		
HK$	**10,740**	—
US$	**1,127,727**	348,670
RMB	**23,000**	241,460
	1,161,467	590,130
	1,681,098	1,463,356

The bank borrowings are secured by assets or guaranteed by various parties. Details set out as follows:

	2016 RMB'000	2015 RMB'000
Borrowings are secured by assets of the Group (Note)	**102,760**	222,600
Borrowings are cross-guaranteed among subsidiaries of the Company	**1,578,338**	1,240,756
	1,681,098	1,463,356

Note: The Group has pledged several assets to secure banking facilities granted to the Group. The carrying amounts of the assets pledged are as follows:

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	**181,103**	232,237
Land use rights, classified as prepaid lease payments	**56,838**	228,446
	237,941	460,683

25. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the current and prior years:

	Undistributable profits of PRC Subsidiaries RMB'000
At 1 January 2015	10,500
Charge to profit or loss	7,000
At 31 December 2015 and 1 January 2016	**17,500**
Charge to profit or loss	**7,000**
At 31 December 2016	**24,500**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries of the Group from 1 January 2008 onwards. As at 31 December 2016, deferred tax liability has been provided in respect of approximately RMB245,000,000 (2015: RMB175,000,000) undistributed earnings of the Group's PRC Subsidiaries. Deferred tax has not been provided in respect of the remaining temporary differences attributable to the undistributed earnings as the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

As at 31 December 2016, the aggregate amount of undistributed earnings of the Group's PRC Subsidiaries in respect of which deferred liability tax has not been provided for were approximately RMB1,984,665,000 (2015: RMB1,732,779,000).

26. SHARE CAPITAL

	Number of shares	**Share capital** HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2015	1,078,000,000	107,800,000
Issue of shares in lieu of cash dividend (Note a)	436,339	43,634
Bonus issue (Note b)	107,800,000	10,780,000
At 31 December 2015, 1 January 2016 and 31 December 2016	1,186,236,339	118,623,634

	2016 **RMB'000**	2015 RMB'000
Presented in RMB		
Share capital	**102,501**	102,501

26. SHARE CAPITAL (continued)

Notes:

(a) On 15 June 2015, 436,339 ordinary shares of HK$0.10 each of the Company were allotted and issued at HK$1.94 per share, amounting to HK$847,000 (equivalent to approximately RMB683,000) in respect of the final dividend for the year ended 31 December 2014 under the Scrip Dividend Scheme.

(b) On 16 June 2015, 107,800,000 ordinary shares of HK$0.10 each of the Company, amounting to HK$10,780,000 (equivalent to approximately RMB8,624,000), on the basis of one bonus share for every ten shares were issued at par value by way of transfer from the share premium account of the Company. Such bonus issue was approved by the shareholders of the Company at the annual general meeting held on 8 May 2015.

(c) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.10 each	Price paid per share Highest	Lowest	Aggregate consideration paid (including expenses)
		HK$	HK$	RMB'000
November 2016	352,000	1.83	1.78	563
December 2016	3,319,000	2.01	1.90	5,779
	3,671,000			6,342

The above shares were cancelled on 19 January 2017. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the year.

All shares issued rank pari passu with other shares in issue in all respects.

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

The capital structure of the Group consists of net debt, which includes bank borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, capital reserve, special reserve, statutory surplus reserve and accumulated profits.

The management of the Group reviews the capital structure periodically. As part of this review, the Group considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises borrowings. Adjusted capital comprises all components of equity (i.e. share capital, share premium, accumulated profits and other reserves).

26. SHARE CAPITAL (continued)

The debt-to-adjusted capital ratios at 31 December 2016 and at 31 December 2015 were as follows:

	2016 RMB'000	2015 RMB'000
Total debt	1,681,098	1,463,356
Less: Cash and cash equivalents	(465,179)	(735,222)
Net debt	1,215,919	728,134
Total equity	2,721,403	2,417,112
Debt-to-adjusted capital ratio	45%	30%

The increase in the debt-to-adjusted capital ratio during 2016 resulted primarily from increase of bank borrowings.

The externally imposed capital requirements for the Group are: (i) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (ii) to meet financial covenants attached to the interest-bearing borrowings.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2016 and 2015.

27. RESERVES

THE GROUP

	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Share repurchase reserve RMB'000	Statutory surplus reserve RMB'000 (Note c)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2015	91,892	257,299	67,866	—	180,519	1,610,530	2,208,106
Profit and total comprehensive income for the year	—	—	—	—	—	223,881	223,881
Bonus issue	(8,624)	—	—	—	—	—	(8,624)
Dividends recognised as distribution	648	—	—	—	—	(109,400)	(108,752)
Transferred to accumulated profits	(39,900)	—	—	—	—	39,900	—
Appropriation	—	—	—	—	28,791	(28,791)	—
At 31 December 2015 and 1 January 2016	44,016	257,299	67,866	—	209,310	1,736,120	2,314,611
Profit and total comprehensive income for the year	—	—	—	—	—	310,633	310,633
Share repurchased	—	—	—	(6,342)	—		(6,342)
Appropriation	—	—	—	—	35,742	(35,742)	—
At 31 December 2016	44,016	257,299	67,866	(6,342)	245,052	2,011,011	2,618,902

27. RESERVES (continued)

THE COMPANY

	Share premium RMB'000	Capital reserve RMB'000	Share repurchase reserve RMB'000	Accumulated profits (losses) RMB'000	Total RMB'000
At 1 January 2015	91,892	5,690	—	19,705	117,287
Loss and total comprehensive expense for the year	—	—	—	(62,840)	(62,840)
Bonus issue	(8,624)	—	—	—	(8,624)
Dividends recognised as distribution	648	—	—	(109,400)	(108,752)
Transferred to accumulated profits	(39,900)	—	—	39,900	—
At 31 December 2015 and 1 January 2016	**44,016**	**5,690**	—	**(112,635)**	**(62,929)**
Loss and total comprehensive expense for the year	—	—	—	**(122,161)**	**(122,161)**
Share repurchased		—	**(6,342)**	—	**(6,342)**
At 31 December 2016	**44,016**	**5,690**	**(6,342)**	**(234,796)**	**(191,432)**

Note a: Capital reserve represents the deemed contribution from shareholders of the Company as the result of debts waived by the shareholders of the Company in 2009 and 2010 and transfer of shares to a consulting company pursuant to the initial public offering of the Company in 2010.

Note b: The special reserve represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Group pursuant to the corporate reorganisation, and the nominal value of the Company's shares issued for the acquisition.

Note c: According to the relevant laws in the PRC, the PRC subsidiaries are required to transfer at least 10% of their net profit after taxation under the generally accepted accounting principles in the PRC, as determined under the PRC accounting regulations, to a statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The statutory surplus reserve can be used to offset the previous years' losses, if any. The statutory surplus reserve may also be used to increase capital or to meet unexpected or future losses. The statutory surplus reserve is non-distributable other than upon liquidation.

28. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Both the Group and the employee contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,500 (equivalent to approximately RMB1,340) (2015: HK$1,500 (equivalent to approximately RMB1,250)) to the MPF Scheme.

28. RETIREMENT BENEFIT SCHEMES (continued)

(b) Social security and benefits for PRC employees

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The Group is required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB3,240,000 (2015: RMB2,748,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2016.

29. RELATED AND CONNECTED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transaction with its related party during the year:

	2016	2015
	RMB'000	RMB'000
Acquisition of an associate (Note 19)	**533,000**	—

(b) The remuneration of directors and other members of key management during the year was as follows:

	2016	2015
	RMB'000	RMB'000
Short-term benefits	**4,871**	4,499
Post-employment benefits	**144**	138
	5,015	4,637

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

30. LEASE COMMITMENTS

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise during the year ended 31 December 2016 were RMB351,000 (2015: RMB308,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**309**	303
In the second to fifth year inclusive	**77**	329
	386	632

Operating lease payments represent rentals payable for the Group's office premise in both years. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

31. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	**241,409**	170,914

32. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2016 and 2015 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of ownership interest and voting power held by the Company		Principal activities
				2016	2015	
Xi Yuan BVI	British Virgin Islands	Hong Kong	1 ordinary share of US$1	**100% (directly)**	100% (directly)	Investment holding
Sunwell	Hong Kong	Hong Kong	10,000,000 ordinary shares	**100% (indirectly)**	100% (indirectly)	Investment holding
Huaxiang*	PRC	PRC	RMB542,334,612	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and other products
Xiyuan*	PRC	PRC	HK$300,000,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and wall paper backing paper and copy paper
Youlanfa*	PRC	PRC	RMB128,880,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper, copy paper and other products

* These subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	215,916	215,916
Amount due from a subsidiary	—	644,608
Derivative financial assets	7,969	—
	223,885	860,524
CURRENT ASSETS		
Prepayments	43	—
Amount due from a subsidiary	955,645	—
Bank balances and cash	50,997	5,244
	1,006,685	5,244
CURRENT LIABILITIES		
Other payables and accrued expenses	6,812	2,440
Bank borrowings	184,961	475,086
	191,773	477,526
NET CURRENT ASSETS (LIABILITIES)	814,912	(472,282)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,038,797	388,242
NON-CURRENT LIABILITIES		
Bank borrowings	1,127,728	348,670
NET (LIABILITIES) ASSETS	(88,931)	39,572
CAPITAL AND RESERVES		
Share capital (Note 26)	102,501	102,501
Reserves (Note 27)	(191,432)	(62,929)
(CAPITAL DEFICIENCIES) TOTAL EQUITY	(88,931)	39,572

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	1,434,379	1,531,102	1,543,920	1,702,664	**1,799,488**
Profit before tax	294,115	367,288	322,330	285,840	**387,248**
Income tax expense	(43,875)	(76,822)	(49,360)	(61,959)	**(76,615)**
Profit and total comprehensive income for the year	250,240	290,466	272,970	223,881	**310,633**
Profit and total comprehensive income attributable to owners of the Company	250,240	290,466	272,970	223,881	**310,633**

	As at 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	3,084,992	3,474,572	3,940,664	4,149,802	**4,694,861**
Total liabilities	(1,146,465)	(1,326,329)	(1,638,716)	(1,732,690)	**(1,973,458)**
	1,938,527	2,148,243	2,301,948	2,417,112	**2,721,403**
Equity					
Equity attributable to owners of the Company	1,938,527	2,148,243	2,301,948	2,417,112	**2,721,403**
	1,938,527	2,148,243	2,301,948	2,417,112	**2,721,403**