JIA YAO HOLDINGS LIMITED
嘉耀控股有限公司

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code: 01626

2016
ANNUAL REPORT

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Financial Highlights

The board (the "Board") of directors (the "Directors") of Jia Yao Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Year") together with the comparative figures for the corresponding period in 2015.

- Revenue for the year ended 31 December 2016 increased by approximately 4.2% or RMB21.0 million to approximately RMB516.1 million as compared with the same period in 2015.
- Gross profit for the year ended 31 December 2016 increased by approximately 3.3% or RMB3.3 million to approximately RMB103.3 million as compared with the same period in 2015.
- Gross profit margin for the year ended 31 December 2016 decreased by approximately 0.2% from approximately 20.2% to approximately 20.0% as compared with the same period in 2015.
- Profit attributable to owners of the Company for the year ended 31 December 2016 increased by approximately 2.0% or RMB0.05 million to approximately RMB2.6 million as compared with the same period in 2015.
- Average trade and note receivables turnover days increased from approximately 141 days for the year ended 31 December 2015 to approximately 162 days for the year ended 31 December 2016.
- Average trade and note payables turnover days increased from approximately 244 days for the year ended 31 December 2015 to approximately 274 days for the year ended 31 December 2016.
- Average inventory turnover days increased from approximately 91 days for the year ended 31 December 2016 to approximately 97 days for the year ended 31 December 2015.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (for the year ended 31 December 2015: nil).

Notes:

(i) Gross profit margin were calculated based on gross profit for the year divided by the revenue for the year.

(ii) Average trade and note receivables turnover days were calculated as the average of the beginning and ending of trade and note receivables balance of the year end divided by the revenue for the year and multiplied by the number of days for the year (366 days for the year ended 31 December 2016 (for the year ended 31 December 2015: 365 days)).

(iii) Average trade and note payables turnover days were calculated as the average of the beginning and ending of trade and note payables balance of the year end divided by the cost of sales for the year and multiplied by the number of days for the year (366 days for the year ended 31 December 2016 (for the year ended 31 December 2015: 365 days)).

(iv) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance of the year end divided by the cost of sales for the year and multiplied by the number of days for the year (366 days for the year ended 31 December 2016 (for the year ended 31 December 2015: 365 days)).

Corporate Information

Board of Directors

Executive Directors

Mr. Li Tie *(Chairman)*
Mr. Liu Daoqi *(Chief Executive Officer)*
Mr. Huang Erwei

Non-executive Director

Mr. Yang Yoong An

Independent Non-executive Directors

Mr. Gong Jinjun
Mr. Zeng Shiquan
Mr. Wang Ping

Company Secretary

Mr. Wu Hung Wai *(HKICPA)*

Registered Office

Clifton House
75 Fort Street, PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Headquarter and Principal Place of Business in the PRC

No. 6 Qingdao Road
Dongshan Economic Developing District
Yichang, Hubei

Principal Place of Business in Hong Kong

Suite 3212, 32nd Floor, Tower One, Times Square
No. 1 Matheson Street, Causeway Bay
Hong Kong

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Gong Jinjun
Mr. Zeng Shiquan

Remuneration Committee

Mr. Gong Jinjun *(Chairman)*
Mr. Liu Daoqi
Mr. Wang Ping

Nomination Committee

Mr. Li Tie *(Chairman)*
Mr. Zeng Shiquan
Mr. Gong Jinjun

Corporate Website Address

www.jiayaoholdings.com

Authorised Representatives

Mr. Huang Erwei
Mr. Wu Hung Wai

Principal Bankers

China Minsheng Bank Yichang Branch
China Merchants Bank Yichang Branch
Hubei Bank Corporation Yichang Branch

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Limited
(previously known as Appleby Trust (Cayman) Ltd.)
Clifton House
75 Fort Street, PO Box 1350
Grand Cayman, KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301 – 04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

Legal Adviser as to Hong Kong Laws

Loong & Yeung
Room 1603, 16/F
China Building, 29 Queen's Road Central
Central, Hong Kong

Auditor

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual report of the Company for the year ended 31 December 2016.

During the year, despite of weak global economy, the economy of the People's Republic of China (the "PRC" or "China") remained resilient. The economic growth of the PRC was 6.7% in the year of 2016, showing stable growth in overall Chinese economic trend. Challenges continued to arise in the tobacco industry. For instance, heightened awareness of health in the country resulted in stepped up efforts in tobacco control. Industry polarisation and inventory clearance earmarked the cigarette industry in 2016. Nevertheless, the Group is relatively experienced among the peers and thus could maintain stable sales. Thanks to strategic planning as well as strong technology and development capabilities, the Company successfully maintained its market status of a leading paper cigarette packaging printer by leveraging its competitive edges.

For the year ended 31 December 2016, the Group's revenue amounted to approximately RMB516.1 million, representing an increase of approximately 4.2% compared to the same period in 2015. Gross profit was approximately RMB103.3 million, representing a year-on-year increase of approximately 3.3%. The gross profit margin was approximately 20.0% compared to 20.2% in 2015. Profit attributable to owners of the Company amounted to approximately RMB2.6 million, representing an increase of approximately 2.0%.

The Company continues to strive to excel at its strengths to grasp every opportunities in the market despite of the challenges faced by the tobacco industry. We strengthen our sophisticated internal management, strictly control the production and operating costs so as to enhance our overall competence. Through bidding, new product development, new market entry and handmade product business development, our market share continues to grow. Improving the capabilities of our technology and R&D team, we stand out among the peers with our innovative technology and product design.

In the future, the economy of the PRC will grow with strong momentum while environmental protection as well as quality of development will be the focuses of the cigarette package printing industry. In addition, demand of packaging will increase in both quality and quantity, which leads to recovery in the cigarette package printing industry. As a capable and veteran cigarette package manufacturer like us, we are confident that we will be benefited from the higher standards of production.

I would like to express my gratitude for the continuous support of all our shareholders, investors and customers. The Group's management team and all staff members will continue to strive for better results and maximise returns to the shareholders.

LI Tie
Chairman of the Board and Executive Director

Hong Kong, 21 March 2017

Management Discussion and Analysis

Market Review

Despite of the stagnant and vulnerable global economy in 2016, the economy of the PRC kept undergoing the restructure of "new normal" with a natural slowdown. Hitting the growth target set by the PRC government, which ranges between 6.5% and 7%, the PRC posted a consistent 6.7% increase in gross domestic product for the year of 2016. Strong fiscal support, loose monetary policy, and a booming property market were the main factors that drove the economic growth of the PRC in the previous year.

With respect to the tobacco industry in the PRC, the cigarette sales volume amounted to a total of 47.01 million cases of cigarettes, slightly decreased by 5.6% from the corresponding period in 2015. Notwithstanding the insignificant drop in the overall sales volume, the tobacco industry is turning into more sophisticated and brand-focused. Adapting to the changes of the industry, experienced paper cigarette package printers with strong capabilities of research and development, such as the Company, obviously enjoyed more advantages under industry polarisation. Moreover, handmade products, customised packaging and labels have received increasing popularity in recent years. Higher demand on qualitative paper cigarette package required professional talents at the field of technology and product design, which are the competitive edges of the Company.

Management Discussion and Analysis (Continued)

Business Review

The Group is principally engaged in the design, printing and sales of paper cigarette packages and to a lesser extent, social product paper packages in the PRC. Hubei Golden Three Gorges Printing Industry Co., Ltd* (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), the Group's primary subsidiary, has been established in the PRC for over 20 years. The Group provides paper cigarette packaging services for 15 of the 30 key cigarette brands designated by the State Tobacco Monopoly Administration of the PRC ("STMA"), including Pride (嬌子), Haomao (好貓) and Double Happiness (雙喜). The Group has also diversified its business to social product paper packages such as medicine, wine, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

Sales and Distribution

The Group places great emphasis on product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities. As at the date of this report, the Group's clients included 12 provincial tobacco industrial companies and 8 non-provincial tobacco companies under China Tobacco Industry Development Center* (中國煙草實業發展中心), which are located in Hubei, Sichuan, Yunnan, Shaanxi, Henan and other provinces. For those existing clients, the Group will strive, by taking advantage of its current status as an approved supplier, to include other cigarette brands or sub-brands manufactured by those clients which are currently not designed and/or printed by the Group into the Group's product portfolio.

The Group currently has a total of 35 sales and marketing staff members which mainly engaged in sales and sales management as well as sales office work.

Product Development and Design

The Group will continue to invest in machinery and equipment to upgrade its production plants and ensure the productivity is up to international standards. The management strives to pursue cutting-edge technology in order to reduce production costs while maintaining or even improving product quality.

Technology Development and Quality Control

The Group attaches high importance to product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities, and continuing to commit resources to the upgrading of product research and development capabilities. During the period under review, the Group carried out regulated operation in strict compliance with the ISO9000 quality system standards. Equipped with state-of-the-art and comprehensive inspection equipment and devices, the Group has formulated a complete institutional system that covers every single process for its products in terms of the flow, standards, record and appraisal for the quality management of imported materials, processes as well as inspection of finished products and product delivery, which in turn assures the continuous enhancement of product quality.

Cost Control

Due to the impact of the current rising prices of paper packaging raw materials in the industry and the Group, in order to keep the fluctuations in the prices of packaging raw materials under effective control, further improved the bidding process by selecting the top-ranking suppliers with strength in the industry during the Year for carrying out strategic cooperation with the Group to hedge against price fluctuations together. Furthermore, at the beginning of each year, the management of each department of the Group will hold a meeting to plan the annual purchasing strategy on each major raw materials in order to set the cost target, and a mid-year meeting will also be held to adjust the annual purchasing strategy based on the market conditions.

* *For identification purpose only*

Management Discussion and Analysis (Continued)

Financial Review

Revenue

For the year ended 31 December 2016, the revenue of the Group was approximately RMB516.1 million, representing an increase of approximately 4.2% over the same period in 2015, among which revenue from paper cigarette packages segment and social product paper packages segment increased by approximately 4.1% and 6.2%, respectively. The increase in sales was primarily attributable to the Group's continuing expansion of the production capacity for handmade products and the sales of handmade products increased accordingly during the year.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2016:

	For the year ended 31 December		
	2016	2015	Change (%)
	RMB'000	RMB'000	(approximate)
Paper cigarette packages segment	**478,240**	459,460	+4.1%
Social product paper packages segment	**37,834**	35,629	+6.2%

Gross Profit

The Group's gross profit increased by approximately 3.3% from approximately RMB100.0 million for the year ended 31 December 2015 to approximately RMB103.3 million for the year ended 31 December 2016. The Group's gross profit margin decreased by approximately 0.2% from approximately 20.2% to approximately 20.0% as compared with the same period in 2015. The Group recorded a steady increase in gross profit and stable gross profit margin as compared with the same period in 2015.

Other Income

Other income mainly consisted of interest income on bank deposits, sundry income from the sale of scrap material and non-recurring government grants. For the year ended 31 December 2016, the Group's other income decreased by approximately 63.5% to approximately RMB2.9 million. During the year ended 31 December 2015, the Group recorded a receipt of government grant for the Company's successful listing on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") in year 2014. There were no such income recorded during the year ended 31 December 2016.

Other Gains and Losses

For the year ended 31 December 2016, other gains and losses mainly consisted net gains and losses arising from disposal of property, plant and equipment and net gains and losses on disposal of assets classified as held for sale. For the year ended 31 December 2016, the Group recorded net other losses of approximately RMB1.1 million as compared with net other gains of approximately RMB2.0 million for the year ended 31 December 2015. During the year ended 31 December 2015, the Group recorded a gain on disposal of land of approximately RMB3.3 million (for the year ended 31 December 2016: nil).

Selling and Distribution Expenses

For the year ended 31 December 2016, selling and distribution expenses comprise: (i) delivery expenses for transportation of our products to customers; (ii) staff costs and benefits relating to our Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during our normal course of business; (iv) travelling expenses of our staff incurred for sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's selling and distribution expenses increased by approximately 5.7% from approximately RMB29.5 million for the year ended 31 December 2015 to approximately RMB31.2 million for the year ended 31 December 2016. The increase was mainly due to the increase in transportation costs for delivery of goods to customer because of expansion of market to outer districts of China such as Heilongjiang, Yunnan and Inner Mongolia and increase in volume of goods delivering to remote customers during the year ended 31 December 2016.

Management Discussion and Analysis (Continued)

Administrative and Other Operating Expenses

For the year ended 31 December 2016, administrative and other operating expenses consist of (i) staff costs and benefits relating to our Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses arising from daily operation; (iv) entertainment expenses of administrative staff; (v) research and development expenses; (vi) office expenses; (vii) regulatory expenses; and (viii) other expenses incurred in relation to our administrative operations. The expenses decreased by approximately 4.3% from approximately RMB57.5 million for the year ended 31 December 2015 to approximately RMB55.0 million for the year ended 31 December 2016. The decrease was mainly due to the decrease in staff benefits, depreciation and compliance advisory fee during the year.

Finance Costs

For the year ended 31 December 2016, finance costs primarily consist of interest payments on interest-bearing obligations, finance costs arising on early redemption of note receivables when the Group sold our note receivables to the banks and other financial institutions at a discount in exchange for immediate cash, and bank fees and charges. The finance costs decreased by approximately 30.0% from approximately RMB14.0 million for the year ended 31 December 2015 to approximately RMB9.8 million for the year ended 31 December 2016. Such decrease in finance costs was mainly due to the decrease of finance costs arising from early redemption of note receivables during the year.

Income Tax Expense

The Group's income tax expense decreased by approximately 8.7% from approximately RMB4.9 million for the year ended 31 December 2015 to approximately RMB4.5 million for the year ended 31 December 2016.

Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company increased by approximately 2.0% from approximately RMB2.5 million for the year ended 31 December 2015 to approximately RMB2.6 million for the year ended 31 December 2016.

Trade and Other Receivables

Trade and other receivables increased by approximately 5.5% from approximately RMB262.0 million as at 31 December 2015 to approximately RMB276.3 million as at 31 December 2016. The increase was mainly attributable to the net effect of: (i) decrease of trade receivables from approximately RMB216.8 million as at 31 December 2015 to approximately RMB206.2 million as at 31 December 2016; (ii) decrease in payments in advance from approximately RMB13.1 million as at 31 December 2015 to approximately RMB6.8 million as at 31 December 2016; and (iii) the Company recorded note receivables of approximately RMB34.7 million as at 31 December 2016 (as at 31 December 2015: nil).

Trade and Other Payables

Trade and other payables decreased by approximately 15.5% from approximately RMB359.3 million as at 31 December 2015 to approximately RMB303.4 million as at 31 December 2016. The decrease was mainly due to the net effect of: (i) increase of trade payables from approximately RMB128.2 million as at 31 December 2015 to approximately RMB178.0 million as at 31 December 2016; and (ii) decrease of note payables from approximately RMB205.2 million as at 31 December 2015 to approximately RMB107.6 million as 31 December 2016.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB44.4 million as at 31 December 2016, compared with net current assets of approximately RMB22.5 million as at 31 December 2015. The Group maintained a healthy liquidity position during the year ended 31 December 2016. The Group's operations were principally financed by internal resources and bank borrowings during the year.

As at 31 December 2016, the Group's bank balances and cash, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB58.2 million, compared with approximately RMB55.2 million as at 31 December 2015.

Management Discussion and Analysis (Continued)

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB150.0 million as at 31 December 2016 (as at 31 December 2015: approximately RMB143.5 million). The increase of interest-bearing borrowings is mainly due to increase in borrowings during the Year. The gearing ratio (defined as total debt divided by total equity) increased from approximately 63.5% as at 31 December 2015 to approximately 65.1% as at 31 December 2016. The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 31 December 2015 and 2016.

It is the policy of the Group to adopt a consistently prudent financial management strategy. Sufficient liquidity is maintained with appropriate levels of borrowings to meet the funding requirements of the Group's investments and operations.

Capital Expenditure

During the year ended 31 December 2016, the Group's total capital expenditure amounted to approximately RMB6.2 million (2015: approximately RMB35.3 million), which was mainly used in purchase of plant and machineries.

Treasury Policies

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in Renminbi and Hong Kong dollars, are normally placed with banks in short or medium term deposits for working capital of the Group.

Charge of Assets

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	2016 **RMB'000**	2015 RMB'000
Prepaid lease payments	**21,179**	21,759
Property, plant and equipment	**132,026**	145,830
Trade receivables	**139,795**	111,087
Pledged bank deposits	**54,013**	97,000
	347,013	375,676

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There are no significant investments, material acquisition and disposal of subsidiaries and associated companies by the Group for the year ended 31 December 2016 (2015: nil).

Contingent Liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities (as at 31 December 2015: nil).

Management Discussion and Analysis (Continued)

Foreign Exchange Risks

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, other receivables and other payables maintained in Hong Kong Dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2016.

Human Resources and Remuneration

As at 31 December 2016, the Group employed 850 employees (as compared with 1,081 employees as at 31 December 2015) with total staff cost of approximately RMB62.8 million incurred for the year ended 31 December 2016 (as compared with approximately RMB62.4 million for the year ended 31 December 2015). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Future Outlook

Looking ahead, "stability" is still the main focus of Chinese economy. The Chinese Academy of Social Sciences (CASS) forecast China's economic growth in 2017 will be 6.5%, which would be a bit down from the expected growth of around 6.7%for last year. With a steady yet slower GDP growth rate, the Chinese economy is believed to be on a path of stable and healthy development.

In the second half of 2016, improvement in the industrial sector provided strong momentum for China's economy and set off the new year with a positive start. In 2017, the tobacco industry will continue to emphasise the key tasks of destocking and lowering costs. At the same time, environmental protection and the quality of development will be the spotlights of the cigarette package printing industry. Therefore, the Company plans to enhance our product portfolio through developing new products and technology in order to keep abreast of industry trends. We will also boost our production capacity and technological standards to order to expand our market share.

With further brand integration in the tobacco industry, we will boost our research and development capability for new products, enhance our product mix and actively develop new products to expand our market. Internally, we are strengthening our internal management by focusing on managing costs, production, quality, procurement and other aspects of our operations to reduce operating costs and the risks associated with product quality, and to enhance business development.

The Company will strive for stable business development with target to breakthrough in turnover in 2017. Efforts will be put into expanding market share and production capacity in order to strengthen our leading market position. Leveraging on years of experience in the industry and solid relationship with our cooperation partners, the Company will grasp the new market opportunities from new rounds of bidding in major markets to stimulate extra growth in sale volume. With stable business development, we will continue to utilise our advantages and create higher value and returns for our shareholders.

Biographies of Directors and Senior Management

Executive Directors

Mr. Li Tie (李鐵), aged 40, was appointed as our executive Director and the Chairman of the Board on 24 February 2017 and 17 March 2017, respectively.

Mr. Li is the director and president of China Civil Aviation Investment Group Limited, and the sole director and president of China Civil Aviation (Cayman) Investment Group Limited. Mr. Li joined HNA Group Co., Ltd ("HNA Group") in 2002. He has extensive knowledge and experience regarding corporate finance and management. Mr. Li also holds directorships in certain companies controlled by substantial shareholders of the Group. Mr. Li holds a bachelor's degree in law from the Anhui University, the PRC and he is also a certified public accountant, a qualified lawyer, an insurance assessor and a certified tax adviser of the PRC.

Mr. Liu Daoqi (劉道騏), aged 38, was appointed as our executive Director and the chief executive officer of our Company on 24 February 2017 and 17 March 2017, respectively.

Mr. Liu is the chief investment officer of HNA Tourism Group Co., Ltd and the chief executive officer of China Civil Aviation Investment Group Limited. Mr. Liu joined HNA Group in 1999. He has extensive knowledge and experience regarding investment and corporate management. Mr. Liu holds a bachelor's degree in computer science from the Nanjing University of Aeronautics and Astronautics, the PRC.

Mr. Huang Erwei (黃爾威), aged 39, was appointed as our executive Director on 24 February 2017.

Mr. Huang is the financial controller of China Civil Aviation Investment Group Limited. Mr. Huang was designated as the general manager of financial department in March 2014 at Hainan Airlines Co. Ltd, a company listed on the Shanghai Stock Exchange (SSE: 600221). Mr. Huang joined HNA Group in 1999. He has extensive knowledge and experience regarding financial planning, management and corporate financing. Mr. Huang holds a bachelor's degree in English (International Business) and a master's degree in application engineering.

Mr. Feng Bin (豐斌), aged 46, was appointed as our executive Director on 24 March 2014 and resigned on 17 March 2017. He also served as the chief executive officer of our Company up to 17 March 2017.

Mr. Feng graduated from the Southwestern University of Finance and Economics (西南財經大學) majoring in accounting in June 1992 through higher education self-taught examination. An accountant qualification was conferred on him by Ministry of Finance of the PRC in October 1994. In June 2008, Mr. Feng obtained a self-study undergraduate certificate (Adult Higher Education) in accounting from the Zhongnan University of Economics and Law (中南財經政法大學). In January 2011, Mr. Feng obtained a part- time master degree (professional degree) in executive management business administration from the Tsinghua University (清華大學).

Mr. Feng has more than 13 years of experience in the cigarette packaging trading field. From August 1987 to December 1989, Mr. Feng worked at 四川省德昌縣王所鄉政府 (Dechang Wangsuo Township Government*). From December 1989 to July 2002, Mr. Feng worked at 中共德昌縣委辦公室 (Committee Office of Dechang County*), during which Mr. Feng was attached to work at 四川省德昌縣菸葉複烤廠 (Sichuan Dechang Tobacco Redrying Factory*) as a factory manager from June 1996 to February 2001. From October 2005 to June 2008, Mr. Feng served as deputy general manager of 成都今辰科技發展有限公司 (Chengdu Jinchen Sci-Tech. Development Co., Ltd.*).

Mr. Feng joined Hubei Golden Three Gorges in March 2001 and was appointed as the chief financial officer and was the deputy general manager when he left Hubei Golden Three Gorges in 2005. Mr. Feng re-joined Hubei Golden Three Gorges in July 2008 as the deputy general manager and has been the general manager of Hubei Golden Three Gorges from February 2012 to December 2016.

* *For identification purpose only*

Biographies of Directors and Senior Management (Continued)

Non-executive Director

Mr. Yang Yoong An (楊詠安) (formerly known as **Yang An (楊安)**), aged 54, was first appointed as a Director on 5 August 2013, and was redesignated as our executive Director from 24 March 2014 to 17 March 2017, and as a non-executive Director since 17 March 2017. Mr. Yang was the Chairman of our Company up to 17 March 2017.

Mr. Yang had engaged in various businesses since the 1980s such as trading of fishery products and cigarette-related accessories products.

With the acquisition of the equity interests in Hubei Golden Three Gorges in 2001, Mr. Yang developed the business of production of cigarette packages in the PRC. In 2010, Mr. Yang became the chairman of Hubei Golden Three Gorges and he has been responsible for the overall day to day management of Hubei Golden Three Gorges.

Since 2012, Mr. Yang has been the vice president of the Hubei Province Guangdong Chamber of Commerce (湖北省廣東商會). Mr. Yang brings over 10 years of extensive business and management experience in commercial business to our management team. Mr. Yang is now a director of all our subsidiaries, and the legal representative of Hubei Golden Three Gorges and Dangyang Liantong Printing Industry Co., Ltd.* (當陽金三峽聯通印務有限公司) ("Dangyang Liantong"). Mr. Yang is the father of Mr. Yang Fan, our non-executive Director who had resigned on 17 March 2017.

As at the date of this annual report, Mr. Yang is the beneficial owner of the entire issued capital of Spearhead Leader Limited, which in turn holds 29,400,000 shares representing approximately 9.8% of the issued share capital of the Company.

Mr. Yang Fan (楊帆), aged 30, was appointed as our non-executive Director on 24 March 2014 and resigned on 17 March 2017.

Mr. Yang Fan obtained a Bachelor of Arts degree in economics from the University of Cambridge in June 2012. In August 2013, he obtained a Master of Science degree in financial economics from the University of Oxford.

Mr. Yang Fan is the son of Mr. Yang Yoong An, the executive Director and Chairman of the Company. He has been a director of Hubei Golden Three Gorges since March 2014.

Independent non-executive Directors

Mr. Gong Jinjun (龔進軍), aged 60, was appointed as an independent non-executive Director on 5 June 2014, the chairman of the remuneration committee and a member of the nomination committee on 6 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Gong obtained a bachelor degree in economics and geography from Peking University (北京大學) in July 1982. He was accredited as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People's Republic of China*) in March 1988. He was also accredited as a senior architectural engineer by 廣東省深圳建築工程技術人員高級職務評審委員會 (Constructional Engineering Technician Senior Title Evaluating Committee of Shenzhen, Guangdong Province*) in December 1994. In April 2001, Mr. Gong received the second class prize of the 廣東省科學技術獎勵 (Guangdong Province Science and Technology Achievements Award*) presented by the 廣東省人民政府 (People's Government of Guangdong Province*).

* *For identification purpose only*

Biographies of Directors and Senior Management (Continued)

Prior to joining our Group, Mr. Gong was a civil servant of the PRC. He was appointed as an engineer by 中華人民共和國建設部 (The Ministry of Construction of People's Republic of China*) from March 1988 to December 1989. He was appointed as the party branch secretary of 深圳市國土資源局地礦處黨支部 (Mineral Resources Party Branch of the Shenzhen Municipal Bureau of Land and Resources*) in August 2002. He was then appointed as a researcher of 深圳市規化與國土資源局地質礦產處 (Shenzhen Municipality Geology and Mineral Resources Department*) in August 2003 and was then appointed as a researcher of 深圳市國土資源和房產管理局物業監管處 (Shenzhen Municipality Land Resources and Housing Administrative Bureau*) in June 2004. Mr. Gong retired in 2006.

Mr. Zeng Shiquan (曾石泉), aged 69, was appointed as an independent non-executive Director on 5 June 2014 and a member of the audit and nomination committees on 5 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Zeng graduated from the department of economics of Wuhan University (武漢大學) in July 1970. He graduated from Sun Yat-sen University (中山大學) as a postgraduate in political economy in December 1981. He was accredited as a senior economist by 深圳市職稱改革領導小組 (Shenzhen City Job Title Reform Leadership Unit*) in February 1993. Mr. Zeng passed the Training Course for Independent Directors of Listed Companies (上市公司獨立董事培訓班) jointly held by The Securities Association of China (中國證券業協會) and the School of Management, Fudan University (復旦大學管理學院) in July 2003.

Prior to joining our Group, Mr. Zeng had been the chairman of the board of directors of Shenzhen Tefa Group Co. Ltd (深圳市特發集團有限公司) from August 1998 to August 2002. He was also the deputy chairman of the board of directors of Concord Investments Company Limited (長和投資有限公司) from July 1995 to July 2007.

Mr. Zeng has been appointed as an independent director of Shenzhen Terca Technology Co., Ltd. (深圳市特爾佳科技股份有限公司) (Shenzhen Exchange stock code: 002213) since November 2008, whose shares are listed on the Shenzhen Stock Exchange. From January 2013 to January 2016, Mr. Zeng has been appointed as an independent director of Shenzhen Keybridge Communications Co., Ltd. (深圳鍵橋通訊技術股份有限公司) (Shenzhen Exchange stock code: 002316), whose shares are listed on the Shenzhen Stock Exchange, since January 2013. From June 2013 to May 2015, Mr. Zeng has also been appointed as an independent non-executive director of Beijing Enterprises Clean Energy Group Limited (北控清潔能源集團有限公司) (Stock code: 01250) (formerly known as Jin Cai Holdings Company Limited (金彩控股有限公司)), whose shares are listed on the Main Board of the Stock Exchange, since June 2013. From December 2006 to March 2013, Mr. Zeng had been appointed as an independent non-executive director of SZZT Electronics Co., Ltd. (深圳市証通電子股份有限公司) (Shenzhen Exchange stock code: 002197), whose shares are listed on the Shenzhen Stock Exchange, since December 2007. From January 2016 to February 2016, Mr. Zeng has been appointed as an independent non-executive director of Aurum Pacific (China) Group Limited (奧栢中國集團有限公司) (Stock code: 08148), whose shares are listed on the Growth Enterprise Market Board of the Stock Exchange.

Mr. Wang Ping (王平), aged 46, was appointed as our independent non-executive Director on 5 June 2014, the chairman of the audit committee and a member of the remuneration committee on 6 June 2014. He is primarily responsible for overseeing the management independently.

Mr. Wang studied at Nanjing University (南京大學) and received a self-study undergraduate diploma in economic management in December 1993. Mr. Wang obtained a master degree in Business Administration from Sun Yat-Sen University (中山大學) in June 2004. He is a fellow non-practising member of the Chinese Institute of Certified Public Accountants and has over 15 years of experience in corporate finance, audit, accounting and taxation.

Mr. Wang worked at Deloitte Touche Tohmatsu CPA Ltd from September 1999 to August 2002 where he joined as a senior accountant and was later promoted to manager at the audit department. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited (中國稽山控股有限公司), the shares of which are listed on the main board of Singapore Stock Exchange, as the chief financial officer. Mr. Wang worked for EV Capital Pte Ltd. (萬嘉資本私人有限公司) from May 2007 to March 2010 as the vice president. In December 2010, Mr. Wang joined Guang Da (China) Automotive Components Holdings Limited (光大(中國)車輛零部件控股有限公司), a subsidiary of China Vehicle Components Technology Holdings Limited as a senior vice president. Mr. Wang was an executive director and chief financial officer of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 01269) from April 2014 to December 2015 and from March 2012 to December 2015, respectively.

* *For identification purpose only*

Biographies of Directors and Senior Management (Continued)

Mr. Wang has been appointed as an independent non-executive director of following companies whose shares are listed on the Main Board of the Hong Kong Stock Exchange: (a) China Hanking Holdings Limited (Stock code: 03788) since February 2011; (b) China Tianrui Group Cement Company Limited (Stock code: 01252) since December 2012; and (c) China Sinostar Group Limited (華星集團有限公司)(formerly known as Shihua Development Company Limited (實華發展有限公司)) (Stock code: 00485) Since July 2014.

Further, Mr. Wang was or has been appointed as an independent non-executive director of following companies whose shares are listed on the Shenzhen Stock Exchange: (a) Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (Shenzhen Exchange stock code: 002378) from November 2010 to November 2016; (b) Shenzhen Fuanna Bedding and Furnishing Co. Ltd. (深圳市富安娜家居用品股份有限公司) (Shenzhen Exchange Stock code: 002327) since December 2013; (c) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) since March 2016; and (d) Shenzhen Zowee Technology Co., Ltd (深圳市卓翼科技股份有限公司) (Shenzhen Exchange stock code: 002369) since July 2016.

Senior Management

Ms. Song Chun (宋春), aged 48, has been the deputy general manager of Hubei Golden Three Gorges since 18 November 2010 and is responsible for the design, research and development for technology and products. Ms. Song graduated from Guizhou Academy of Arts (貴州藝術專科學校) majoring in arts in July 1993. Ms. Song has over 14 years of experience in design, printing and packaging industry. Before joining our Group, Ms. Song worked as a designer at Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司) (Shenzhen Exchange stock code: 002191), shares of which are listed on the Shenzhen Stock Exchange, from November 2000 to July 2002. She then joined our Group as a designer from July 2002 until she left our Group to join Shenzhen Jinjia Color Printing Group Co., Ltd. as vice technical director in January 2008. In April 2009, Ms. Song rejoined our Group as the deputy general manager. She was accredited as 全國十佳優秀煙標設計師 (National Top Ten Cigarette Package Designer*) by 中國煙草學會 (China Tobacco Society*) and 中國收藏家協會 (China Association of Collectors*) in 2006.

Mr. Yu Tianbing (余天兵), aged 48, is the production director of Hubei Golden Three Gorges since 24 March 2012 and is responsible for production management and quality control of all products. He graduated from the Hubei Radio & TV University (湖北廣播電視大學) majoring in political history in July 1989. In January 2007, Mr. Yu obtained an adult higher education graduation certificate in printing engineering from the Hunan University of Technology (湖南工業大學). From 1992 to 2001, Mr. Yu worked at Hubei Yuyang Chemical Fiber Co., Ltd (湖北玉陽化纖有限公司) as the head of finance and manager of the corporate management department. Mr. Yu held a number of positions including purchasing manager, deputy production director and production director of Hubei Golden Three Gorges since joining our Group in 2003.

Mr. Li Shaoan (李少安), aged 44, is the finance director of Hubei Golden Three Gorges since 17 May 2013 and is responsible for overall financial management. Mr. Li graduated from Hubei College of Finance and Economics (湖北財經高等專科學校, formerly known as 中南財經大學湖北財政分校) majoring in taxation in July 1994. Mr. Li completed the Global Capital Operation Programme held by School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in December 2008. In July 2009, Mr. Li obtained a graduation certificate in accounting from Dongbei University of Finance and Economics (東北財經大學) through online course. Mr. Li became a PRC certified tax agent in November 2008 and a non-practising member of Hubei Institute of Certified Public Accountants (湖北省註冊會計師協會) in December 2009. Mr. Li has over 10 years of experience in the printing industry. Before joining our Group, Mr. Li worked at the finance department of Yichang Xiarun Cooperation Co. Ltd. (宜昌峽潤合作有限公司) from October 1998 to June 2004. Mr. Li held a number of positions at Hubei Golden Three Gorges including the finance manager and deputy finance director from July 2004 to May 2013.

Mr. Wu Hung Wai (吳鴻偉), aged 35, has been the chief financial officer and company secretary of our Company since June 2014, responsible for compliance and financial management of the Group. Mr. Wu obtained a bachelor degree in business from the University of Technology, Sydney in October 2003. Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants. He worked in PKF Hong Kong from April 2005 to July 2010 and his last position in PKF Hong Kong was senior supervisor. From October 2010 to January 2013, Mr. Wu worked at Ernst & Young as senior accountant. From August 2013 to February 2014, he worked at Aussco Hong Kong Limited as finance manager. Mr. Wu has over 9 years of experience in the audit and accounting industry.

* *For identification purpose only*

Corporate Governance Report

Overview

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The corporate governance duties of the Board have been set out in the terms of reference of the Board on corporate governance functions which are available on the website of the Company. We have complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Board considered that the Company had complied with all the applicable code provisions of the Code for the year ended 31 December 2016.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") on terms no less exacting than those set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the Model Code and the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2016.

Event After the year ended 31 December 2016

The Company has undergone a change in controlling shareholder after China Civil Aviation (Cayman) Investment Group Limited ("China Civil Aviation") executed the sale and purchase agreement on 21 December 2016 acquiring 195,600,000 ordinary shares of the Company (the "Share(s)"), which was completed on 30 December 2016. Upon the close of the unconditional mandatory general offer on 17 March 2017, China Civil Aviation held 195,602,000 Shares, constituting an aggregate of approximately 65.2% of the Company's total issued capital. For further details, please refer to the announcements of the Company dated 23 December 2016 and 30 December 2016, respectively, and the composite document of the Company dated 24 February 2017.

Save as disclosed above, there was no material subsequent event during the period from 1 January 2017 to the date of this report.

Corporate Governance Report (Continued)

The Board of Directors

As at the date of this annual report, the Board consists of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information relating to our Directors during the reporting period and up to the date of this annual report:

Name	Age	Position	Date of appointment as Director	Date of resignation/ redesignation	Roles and responsibilities	Relationship with the other Directors
Executive Directors						
Mr. Li Tie (李鐵)	40	Chairman and executive Director	24 February 2017	N/A	Overall management and formulation of business strategy of our Group	N/A
Mr. Liu Daoqi (劉道騏)	38	Chief executive officer and executive Director	24 February 2017	N/A	Overall management and formulation of business strategy of our Group	N/A
Mr. Huang Erwei (黃爾威)	39	Executive Director	24 February 2017	N/A	Overall management and formulation of business strategy of our Group	N/A
Mr. Yang Yoong An (楊詠安)	54	Executive Director	5 August 2013	Ceased to be the Chairman and redesignated as non-executive Director on 17 March 2017	Overall management and formulation of business strategy of our Group	Father of Mr. Yang Fan
Mr. Feng Bin (豐斌)	46	Executive Director	24 March 2014	Resigned on 17 March 2017	Overall financial and operation of our Group	N/A
Non-executive Director						
Mr. Yang Yoong An (楊詠安)	54	Non-executive Director	5 August 2013	Redesignated as non-executive Director on 17 March 2017	Overseeing the general corporate, financial and compliance affairs of the Group	Father of Mr. Yang Fan
Mr. Yang Fan (楊帆)	30	Non-executive Director	24 March 2014	Resigned on 17 March 2017	Overseeing the general corporate, financial and compliance affairs of our Group	Son of Mr. Yang Yoong An

Corporate Governance Report (Continued)

Name	Age	Position	Date of appointment as Director	Date of resignation/ redesignation	Roles and responsibilities	Relationship with the other Directors
Independent non-executive Directors						
Mr. Gong Jinjun (龔進軍)	60	Independent non-executive Director	5 June 2014	N/A	Serves on the audit, remuneration and nomination committees; responsible for overseeing the management independently	N/A
Mr. Zeng Shiquan (曾石泉)	69	Independent non-executive Director	5 June 2014	N/A	Serves on the audit and nomination committees; responsible for overseeing the management independently	N/A
Mr. Wang Ping (王平)	46	Independent non-executive Director	5 June 2014	N/A	Serves on the audit and remuneration committees; responsible for overseeing the management independently	N/A

The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this annual report. Mr. Yang Fan is the son of Mr. Yang Yoong An. Save as disclosed above, there are no other relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

The term of appointment of the non-executive Director is three years commencing from his date of appointment and thereafter maybe extended for such period as the Company and he agrees in writing.

Mr. Yang Yoong An, Mr. Wang Ping and Mr. Gong Jinjun will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 9 June 2017, being eligible, offer themselves for re-election pursuant to the articles of association of the Company (the "Articles of Association"). In accordance with Article 112 of the Articles of Association, Mr. Li Tie, Mr. Liu Daoqi and Mr. Huang Erwei, which are the Directors appointed by the Board on 24 February 2017 and shall hold office until the at the forthcoming annual general meeting of the Company, being eligible, have offered themselves for re-election as Directors at the at the forthcoming annual general meeting of the Company to be held on 9 June 2017.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors representing more than one-third of the Board. Each of the independent non-executive Directors has confirmed by annual confirmation that he has complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement. Amongst the three independent non-executive Directors, Mr. Wang Ping has the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2) of the Listing Rules.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performance. The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

Corporate Governance Report (Continued)

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the Code. As at the date of this annual report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Code disclosures requirements.

The Board has delegated various responsibilities to the Board committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (collectively, the "Board Committees"). Further details of these committees are set out below.

Continuous Professional Development

Newly appointed Directors will receive a comprehensive, formal and tailored induction on the first occasion of their appointment so as to ensure that they have appropriate understanding of the business of the Company and the obligation and responsibility of being a director. Directors' training is an ongoing process. During the Year, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expenses.

Below is a summary of the training the Directors had received during the year under review:

Name of Directors	Type of trainings
Mr. Yang Yoong An	A & B
Mr. Feng Bin (resigned on 17 March 2017)	A & B
Mr. Yang Fan (resigned on 17 March 2017)	A & B
Mr. Zeng Shiquan	A & B
Mr. Gong Jinjun	A & B
Mr. Wang Ping	A & B

A: attending seminars/workshops/forums

B: reading newspapers, journals and updates relating to the economy, tobacco industry or director's duties and responsibilities etc.

Note: The summary above has not included Directors appointed after the year ended 31 December 2016 (i.e Mr. Li Tie, Mr. Liu Daoqi and Mr. Huang Erwei).

Board Meetings

19 Board meetings were held during the year ended 31 December 2016. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as the operation and financial performance of the Group. Notice of Board meeting was sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notices will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communications.

All relevant materials were sent to all the Directors relating to the matters brought before the meetings. All the Directors have been provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings.

Corporate Governance Report (Continued)

The members and attendance of the Board meeting are as follows:

	Attendance/ Meeting held during the year ended 31 December 2016
Mr. Yang Yoong An	19/19
Mr. Feng Bin (resigned on 17 March 2017)	19/19
Mr. Yang Fan (resigned on 17 March 2017)	19/19
Mr. Zeng Shiquan	19/19
Mr. Gong Jinjun	19/19
Mr. Wang Ping	19/19

One general meeting, being the annual general meeting for the year ended 31 December 2015, was held during the year ended 31 December 2016. The members and attendance of the general meeting are as follows:

	Attendance/ Meeting held during the year ended 31 December 2016
Mr. Yang Yoong An	1/1
Mr. Feng Bin (resigned on 17 March 2017)	1/1
Mr. Yang Fan (resigned on 17 March 2017)	1/1
Mr. Zeng Shiquan	1/1
Mr. Gong Jinjun	1/1
Mr. Wang Ping	1/1

Note: The summaries above have not included Directors appointed after the year ended 31 December 2016 (i.e Mr. Li Tie, Mr. Liu Daoqi and Mr. Huang Erwei).

The forthcoming annual general meeting will be held on 9 June 2017.

Directors' Service Contract

Each of the executive Directors has entered into a service agreement with the Company for an initial term commencing on the date of appointment and ending on the conclusion of the 2020 annual general meeting of the Company to be held in 2021, subject to the termination provision therein. Each of the executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

The non-executive Director has entered into a service agreement with the Company for an initial term commencing on the date of appointment and ending on the conclusion of the 2020 annual general meeting of the Company to be held in 2021, subject to the termination provision therein. The non-executive Director or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the independent non-executive Directors has renewed the service agreement with the Company as an independent non-executive Director for a term commencing on 25 May 2016 and ending on the conclusion of the 2016 annual general meeting of the Company to be held in 2017. Each of the independent non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

No Director has entered into any service agreement with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Corporate Governance Report (Continued)

Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. During the year ended 31 December 2016, Mr. Yang Yoong An was the Chairman who provides leadership to the Board but he would not be involved in the day-to-day management of the Group's business. Mr. Feng Bin, was appointed as the Chief Executive Officer of the Company and his role is to oversee the general management and daily operation of the Group.

Remuneration of Directors and Senior Management

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 10 to the consolidated financial statements in this annual report.

Board Committees

The Board has established (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the Board Committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Company has established the Audit Committee on 6 June 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2016, the Audit Committee consists of two independent non-executive Directors and one non-executive Director, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Yang Fan (resigned on 17 March 2017). The primary duties of the Audit Committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the financial reporting system, internal control procedures and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

During the year ended 31 December 2016, the Audit Committee mainly performed the following duties:

— reviewed the Group's audited final results for the year ended 31 December 2015, unaudited interim results for the six months ended 30 June 2016, met with the external auditors to discuss such results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

During the year ended 31 December 2016, two meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meeting of the Audit Committee is set out below:

Name of Director	Attendance/ Number of Audit Committee meeting(s)
Mr. Wang Ping	2/2
Mr. Yang Fan (resigned on 17 March 2017)	2/2
Mr. Zeng Shiquan	2/2

There had been no disagreement between the Board and the Audit Committee during the year ended 31 December 2016.

Corporate Governance Report (Continued)

Remuneration Committee

The Company has established the Remuneration Committee on 6 June 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2016, the Remuneration Committee consists of two independent non-executive Directors, namely Mr. Gong Jinjun (as Chairman) and Mr. Wang Ping, and one executive Director, Mr. Feng Bin (resigned on 17 March 2017). The primary duties of the Remuneration Committee are, inter alia, (1) to determine the remuneration policy of all Directors, to assess the performance of the Directors, to approve the terms of service contracts of the Directors, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, to make recommendations to the Board on the remuneration of the non-executive Director(s), (2) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure they are consistent with relevant contractual terms and are otherwise reasonable and appropriate, (3) to review and approve compensation payable to executive director and senior management for any loss or termination of office or appointment to ensure that it is consistent with contracted terms and is otherwise fair and not excessive, and (4) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2016, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee is set out below:

Name of Director	Attendance/ Number of Remuneration Committee meeting(s)
Mr. Gong Jinjun	1/1
Mr. Wang Ping	1/1
Mr. Feng Bin (resigned on 17 March 2017)	1/1

There had been no disagreement between the Board and the Remuneration Committee during the year ended 31 December 2016.

Nomination Committee

The Company has established the Nomination Committee on 6 June 2014 with written terms of reference in compliance with paragraph A.5 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. During the year ended 31 December 2016, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Zeng Shiquan and Mr. Gong Jinjun, and one executive Director, Mr. Yang Yoong An (as Chairman). The primary functions of the nomination committee are, inter alia, to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on the appointment or re-appointment of Directors in particular the chairman and the chief executive officer and succession planning for Directors.

Corporate Governance Report (Continued)

During the year ended 31 December 2016, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee is set out below:

Name of Director	Attendance/ Number of Nomination Committee meeting(s)
Mr. Yang Yoong An	1/1
Mr. Zeng Shiquan	1/1
Mr. Gong Jinjun	1/1

There had been no disagreement between the Board and the Nomination Committee during the year ended 31 December 2016.

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of directors, in terms of skills, experience, knowledge, expertise, culture, independence, age and gender. These differences will be taken into account in determining the optimum composition of the Board. The Nomination Committee will discuss the measurable objectives for implementing diversity on the Board from time to time and recommend them to the Board for adoption. The Nomination Committee will report annually on the composition of the Board under diversified perspectives, and monitor the implementation of this policy to ensure the effectiveness of this policy. It will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the independent auditors' report contained in this annual report.

External Auditor's Remuneration

The Company engaged HLB Hodgson Impey Cheng Limited as its external auditor for the year ended 31 December 2016. The Audit Committee has been notified of the nature and the service charges of non-audit services for reviewing interim results to be performed by HLB Hodgson Impey Cheng Limited and considered that these non-audit services have no adverse effect on the independence of the auditor. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. Details of the fees paid/payable to HLB Hodgson Impey Cheng Limited during the year are as follows:

	HK$
Audit services	880,000
Interim review	280,000
	1,160,000

Risk Management and Internal Controls

The Board is responsible for the risk management and internal control of the Group and for reviewing their effectiveness. Procedures have been designed to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis. The Board has conducted a review of the effectiveness of the risk management and internal control system of the Group and is satisfied that the Group has fully complied with the Code in respect of risk management and internal controls during the year ended 31 December 2016.

The procedures of the Group's risk management and internal control systems are as follows:

For risk management:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

For internal control:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-today controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Regarding the code provision on internal audit function which took effect in January 2016, the Company has internal audit function which has been revised and monitored by the Audit Committee as to its effectiveness during the Year.

The Company has its inside information policy and dissemination procedure has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees appraised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

The principal risks and uncertainties for the Group can be found in the section entitled "Management Discussion and Analysis" and note 30 to the consolidated financial statements in this annual report.

Corporate Governance Report (Continued)

Company Secretary

The company secretary of the Company is Mr. Wu Hung Wai, whose biography details are set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

Mr. Wu Hung Wai has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2016.

Significant Changes in Constitutional Documents

There had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2016.

Procedures by which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Suite 3212, 32nd floor, Tower One, Times Square, no. 1 Matheson Street, Causeway Bay, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Procedures for Convening General Meetings by Shareholders

Pursuant to Article 64 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Extraordinary general meetings shall also be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company by mail at Suite 3212, 32nd floor, Tower One, Times Square, no. 1 Matheson Street, Causeway Bay, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at Shareholders' Meeting

Shareholders are requested to follow Article 64 of the Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Procedures for convening general meetings by shareholders".

Pursuant to Article 113 of the Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

Environmental, Social and Governance Report

The Group is one of the major active participators in the design, printing and sales of paper cigarette packages and social product paper packages in the PRC. The principal operating subsidiary, Hubei Golden Three Gorges, has been established in the PRC for over two decades. The Group has accumulated over 20 years of experience in the industry and established strong business relationship with the major customers. The factories have established a set of internal practices of quality, environmental and occupational health and safety comprehensive management, which cover many different aspects including but not limited to workplace practices, environmental protection etc., of which, the following are the most relevant and important to our business:

Workplace Conditions

The Group established and implemented "Staff Handbook", which contains the policies relating to human resources, covering areas such as compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare. Basically, every rule in the handbook is set in accordance with all relevant laws and regulations including but not limited to the "Labour Law" and the "Labour Contract Law" in the PRC. The Group strictly complied with the above said relevant standards, rules and regulations throughout the year ended 31 December 2016.

Total workforce in the factories in the PRC by age group and geographical region is set out below:

As at 31 December 2016								
	By age group					**By geographical region of employees' hometown**		
Total number of employees	**Aged 18–25**	**Aged 26–35**	**Aged 36–45**	**Aged over 46**	**Total**	**Hubei Province**	**Outside Hubei Province**	**Total**
850	**99**	**311**	**316**	**124**	**850**	**794**	**56**	**850**

As at 31 December 2015								
	By age group					By geographical region of employees' hometown		
Total number of employees	Aged 18–25	Aged 26–35	Aged 36–45	Aged over 46	Total	Hubei Province	Outside Hubei Province	Total
1,081	166	425	372	118	1,081	941	140	1,081

We are always committed to building a relationship with our employees based on mutual respect. In strict compliance with the requirement of the Labour Law, the Group employs individuals of above 18 years of age with valid identity document issued by the public security department. Recruitment process of subsidiaries of the Group is based on a fair, open and voluntary manner. Each subsidiary enters into legal labour contracts and prohibits forced labour. We have put in place stringent and comprehensive assessment process for recruitment and the human resource department will ensure the accuracy of personal particulars provided by the candidates. Meanwhile, candidates shall display their identity document at the interview for actual age verification and background research.

The Group closely adheres to the standard of constant workload and does not force overtime work directly or indirectly. Other than special situations specified in the law, overtime work may be arranged after negotiation with the labour union and employees based on production and operation requirements, though overtime work for each day mostly does not exceed one hour. Where our employees are required to work overtime due to exceptional reasons, without prejudice to the physical well-being of the employees, the maximum hours allowed for overtime work should be 3 hours per day and 36 hours per month. Regular inspection on all operation units would also be conducted by the Group to ensure that none of child labour or forced labour are in existence within the Group.

For the reporting period, the Group was not aware of any situations which were in violation of any laws and regulations against child labour or forced labour.

Environmental, Social and Governance Report (Continued)

Occupational Health and Safety

The Group manages the hygiene and safety of its plants in accordance with the relevant laws and regulations of occupational health and safety. It also holds safe production and fire safety training on a regular basis, in order to raise the safety awareness of its employees. The Group provides its employees in the PRC with labor protection supplies such as gloves, masks and work uniforms, etc., so as to ensure the safety and health of the employees. Should the employees suffer from any illness or debilitating condition or are considered by the Group to be in need of health protection based on their health inspection results, the Group will limit their job duties, redesignate their post temporarily, applying treatment and other health care measures.

No severe industrial accidents were recorded by the Group during 2016.

Staff Development and Training

Human resources are one of the important assets of the Group. The Group actively expands the horizon for the personal development of its employees and provides various types of training for its employees, including a wide range of staff development training and senior management and personnel training. Through education and training, the Group can enable its employees to enhance their personal accomplishments, strengthen their working skills and reinforce the team performance. Moreover, employees can grow with the Group by bolstering their own values on the basis of their personal interest and expertise.

At the beginning of each calendar year, the Group draws up educational training plans in accordance with the Group's training needs. Each department is responsible for determining its training needs for staff in its department and designing a unique training plan, which shall be submitted to the senior management of the Group for approval. The Group ensures that members of staff who are under the comprehensive management system can fulfill the relevant requirements in terms of education, training, technical and work experience.

Training activities provided to staff include:

(1) New employees orientation;

(2) Technical training for existing employees or internally transferred employees; and

(3) Enrolment in externally organized classes in relation to management knowledge and important position professional training.

Promotions are made in accordance with the needs from the Group's business development and the employees' competence. Vacancies of the Group's internal management positions will be filled up internally by promoting the most qualified employees within the Group according to its policies and practices in practicable situations. In accordance with the requirements of the positions, the Group will select candidates for the vacancies internally from the employees within the Group via public means. Where feasible, the vacancies and job duties will be filled up by the internal employees within the Group, thus offering the employees with the opportunities for promotion and enhancing the efficiency of the Group.

Communication with Staff

Recognising the indispensable importance of the communication with its employees, the Group encourages its employees to share their ideas with the Group, or raise questions or make suggestions to the Group. With the availability of a wide array of communication channels, the Group offers its employees access to the latest information of the Group through a number of means such as the Group's website, internal forums, company newspaper and instant messaging.

The Group has set aside reserved funds for activities. During the year ended 31 December 2016, the Group hosted a series of activities for its employees, including a diverse range of activities such as outing, sport competition, ball game, banquet etc. These events helped employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion among its employees. Staff restaurant are available within the Group's production plants.

Environmental, Social and Governance Report (Continued)

Environmental Protection

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

The Group has taken the following steps in relation to environmental protection:

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

(2) The Group also arranges professional industrial wastage processor to collect pollutants produced by us during our operations, which primarily include waste paper and ink; and

(3) The Group endeavours to procure raw materials that are environmentally friendly.

The Group incurred environmental costs of approximately RMB872,000 and RMB1,386,000 for the years ended 31 December 2016 and 2015 respectively.

Use of Resources

In order to promote saving on utilisation of energy and resources in the factories and minimising the impact of the Group on the environmental and natural resources, the Group promotes various practices to staff as follow:

Water resources control

(1) The Group is committed to the guarantee of water supply installation and maintenance, and to ensuring that water supply is at its optimal working condition. When leakage is discovered, it will be repaired timely; and

(2) The Group educates each employee to save water, and to encourage the reuse of water in order to reduce water consumption, so as to reduce sewage from the source.

Electricity control

(1) Lights and electronic appliances in living area or workplace must be turned off when not in use;

(2) The use of electricity in production must strictly comply with Electricity Law of the PRC to ensure normal production with adherence to the principles of power saving, safety first, high efficiency and low consumption;

(3) To ensure no unnecessary use of resources at production lines; and

(4) Every staff must turn off the power for each department's computers, photocopy machines, printers and facsimile machines when they are off duty or on leave.

Office consumables consumption management

(1) Other than formal documents materials that require the use of papers, each department is advised to handle documents electronically. When the use of paper is required, each paper must be printed double-sided. Single-sided printing is strictly prohibited (except for confidential documents); and

(2) No printing and photocopying of materials unrelated to work.

Supply Chain Management

The Group's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies of raw materials and components to meet its production requirements in the past. The Group usually select suppliers based on the quality of raw materials supplied, pricing, production capacity, marketing history and quality assurance system to ensure we procure raw and auxiliary materials of good quality, as an initial step towards ensuring the high quality of the products. The Group has a set of internal manual on procurement standards of raw materials. When raw materials are delivered to factories, quality control staff selects samples and inspects raw materials with regard to their condition such as the surface quality of paper, the colour of the aluminium foil and ink and the VOC levels. They also review the quality testing reports provided by our suppliers. Raw materials that do not meet the requirements set by us are returned to the relevant suppliers.

The Group communicates and verifies product specifications and requirements with customers before manufacture to ensure pre-production effectiveness. The Group also conducts pre-production technical testing to set the standard known by manufacturing personnel before mass manufacture.

Quality Control on Products

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

Environmental, Social and Governance Report (Continued)

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

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

The Group's engineering department is responsible for conducting management, examination and maintenance of machinery and equipment with professional technology from time to time in order to ensure their proper functioning and safe operations, thus enhancing productivity and product quality. The Group has a set of internal guidelines on the maintenance of equipment. We plan the production schedule by taking into account, amongst other factors, the required routine maintenance so as to minimise any material impact on the Group's operation and financial performance. During 2015, the Group carried out periodic inspection of machinery and equipment. The Group also conducts regular maintenance during holiday periods in factories. The time slots of maintenance are not fixed and are adjusted depending on the production plans of the Group.

The Group provides training to production staff from time to time in order to update them on production techniques and the latest technology. The Group will also update the production staff in relation to any quality issues arising either from our inspection during our production process and/or feedback from our customers. With a view to increase the incentive of each of the production staff to produce quality products and actively participate in quality control, we have established an internal award-and-punishment system. The Group's staff manual sets out a scale and the basis upon which the workers will be awarded for making contribution to quality control or penalised for making substantial mistakes.

Anti-corruption

In the staff handbook, one of the most important rules that the Group requires all members of staff to observe is that they must maintain honesty, refuse corruption, refuse to accept kickbacks, and they must not misappropriate the Group's funds and properties, must not abuse power for own interests, and that all gifts received must be handed to the Company. Employees could whistle-blow to the supervisor for the suspected bribery, extortion, fraud and money laundering issues. Once discovered, it will be reported to police for prosecution. There was no any legal case regarding corrupt practices brought against the Group or its employees during the year ended 31 December 2016.

Community Involvement

In the course of our corporate development, the Group has been committed to giving back to the society with enthusiasm in social welfare. We have internal management measures in place with clear principle for the participation of social welfare activities and charity. It specifies the scope, type and beneficiary of social welfare activities and charity, and sets out requirements on donation reason, donation target, donation channel, donation method, donation responsible person, property composition and amount of donation as well as relevant procedures of receiving the donated properties.

Directors' Report

The Directors are pleased to present to the Shareholders this annual report and the audited consolidated financial statements for the year ended 31 December 2016 (the "Year").

Principal Activities

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 31 to the consolidated financial statements in this annual report.

Results

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 48 of this annual report.

Summary of Financial Information

The summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 104 of this annual report.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2016.

Closure of Register of Members

The annual general meeting is scheduled to be held on Friday, 9 June 2017.

For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 6 June 2017 to Friday, 9 June 2017, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited at Suites 3301 – 04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 5 June 2017.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Year is as follows:

	Percentage of the Group's total	
	sales	**purchases**
The largest customer	16.4%	
Five largest customers in aggregate	59.8%	
The largest supplier		34.2%
Five largest suppliers in aggregate		47.4%

At no time during the Year have the Directors, their close associates or any shareholders of the Company (which, to the best knowledge of the Directors, owns more than 5% of the Company's share capital) had any interest in these major customers or suppliers.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements in this annual report.

Bank Borrowings

Details of bank borrowings of the Group as at 31 December 2016 are set out in note 19 to the consolidated financial statements in this annual report.

Summary Financial Information

A summary of the published results and assets, liabilities of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus, is set out on page 104. This summary does not form part of the consolidated financial statements in this annual report.

Share Capital

Details of the Company's share capital for the Year are set out in note 21 to the consolidated financial statements in this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands.

Purchase, Sale or Redemption of the Company's Listed Securities

The shares of the Company have been listed on the Main Board of the Stock Exchange on the Listing Date. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company on the Stock Exchange, any other stock exchange, by private arrangement or by general offer throughout the Year.

Transfer to Reserves

No profit attributable to equity shareholders of the Group has been transferred to reserves (2015: nil). Other movements in reserves are set out in the consolidated statement of changes in equity in this annual report.

Connected and Related Parties Transactions

Continuing Connected Transactions

The independent non-executive Directors have reviewed the continuing connected transactions set out below, which were disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' Report (Continued)

HLB Hodgson Impey Cheng Limited, the Company's independent auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. HLB Hodgson Impey Cheng Limited has issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed below by the Group in accordance with relevant clauses of Rule 14A.38 of the Listing Rules. Among which, the auditor confirmed that there is nothing that has come to its attention that the continuing connected transaction: (1) have not been approved by the Board, (2) (where such transactions involve provision of goods or services by the Group) were not, in all material respects, in accordance with the pricing policies of the Group, (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions, and (4) have exceeded their respective annual caps.

(A) Sale of paper cigarette packages by the Group to connected persons

During the Year, the Group sold paper cigarette packages to twelve Provincial Tobacco Industrial Companies and eight non- provincial companies under China Tobacco Industry Development Center and their respective branches, factories and other entities in which they respectively have 30% or more interest. A list of the Group's customers comprising Provincial Tobacco Industrial Companies or the enterprises under China Tobacco Industry Development Center (the "State-owned Tobacco Companies Customer(s)") is set out below:

(1) China Tobacco Hubei Industrial Co., Ltd. ("China Tobacco Hubei");

(2) Heilongjiang Tobacco Industrial Co., Ltd. ("Heilongjiang Tobacco Industrial");

(3) China Tobacco Sichuan Industrial Co., Ltd. ("China Tobacco Sichuan");

(4) China Tobacco Shaanxi Industrial Co., Ltd. ("China Tobacco Shaanxi");

(5) China Tobacco Yunnan Industrial Co., Ltd. ("China Tobacco Yunnan");

(6) China Tobacco Shandong Industrial Co., Ltd. ("China Tobacco Shandong");

(7) China Tobacco Henan Industrial Co., Ltd. ("China Tobacco Henan");

(8) Hainan Hongta Cigarette Co., Ltd. ("Hainan Hongta Cigarette");

(9) Wuhan Hongjinlong Printing Company Limited ("Wuhan Hongjinlong");

(10) China Tobacco Guizhou Industrial Co., Ltd. ("China Tobacco Guizhou");

(11) Shanxi Kunming Tobacco Co., Ltd. ("Shanxi Kunming Tobacco");

(12) Shenzhen Tobacco Industrial Co., Ltd. ("Shenzhen Tobacco Industrial");

(13) Inner Mongolia Kunming Cigarettes Co., Ltd. ("Inner Mongolia Kunming Cigarettes");

(14) China Tobacco Hunan Industrial Co., Ltd. ("China Tobacco Hunan");

(15) China Tobacco Hebei Industrial Co., Ltd. ("China Tobacco Hebei");

(16) Xiamen Tobacco Industrial Co., Ltd. ("Xiamen Tobacco");

(17) Yunnan Tobacco Materials (Group) Company Limited ("Yunnan Tobacco Materials");

(18) Hongta Tobacco (Group) Co. Ltd. ("Hongta Group");

(19) China Tobacco Chongqing Industrial Co., Ltd. ("China Tobacco Chongqing"); and

(20) Hainan Hongta Tobacco Company Limited ("Hainan Tobacco")

Directors' Report (Continued)

Hubei Golden Three Gorges is a company established in the PRC with limited liability and is indirectly owned as to 82.86% by the Company and 17.14% by Hubei Three Gorges Tobacco Co., Ltd. ("Hubei Three Gorges"). Hubei Golden Three Gorges is principally engaged in the design, printing and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC.

Hubei Three Gorges holds 17.14% equity interest in Hubei Golden Three Gorges, which is a subsidiary of the Company. Hence, Hubei Three Gorges is a connected person of the Company. To the best knowledge of the Directors after making reasonable enquiries, although 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges, the Directors consider China Tobacco Hubei to be the de facto holding company of Hubei Three Gorges and hence, China Tobacco Hubei is an associate of Hubei Three Gorges under Rule 14A.13 of the Listing Rules, and accordingly a connected person of the Company.

Heilongjiang Tobacco Industrial, one of the Group's customers, is owned as to 35% by China Tobacco Hubei, and as to 65% by China Tobacco Industry Development Center. Hence, Heilongjiang Tobacco Industrial is also an associate of Hubei Three Gorges under Rules 1.01 and 14A.06(2) of the Listing Rules, and hence a connected person of the Company. Heilongjiang Tobacco Industrial is one of the non-provincial companies under China Tobacco Industry Development Center.

All of the State-owned Tobacco Companies Customers (including China Tobacco Hubei and Heilongjiang Tobacco Industrial) are direct or indirect wholly-owned subsidiaries (i.e. "fellow subsidiaries") of CNTC, the holding company of China Tobacco Hubei. Hence, on a strict interpretation of Rules 1.01 and 14A.06(2) of the Listing Rules, each of the State-owned Tobacco Companies Customers is an associate of Hubei Three Gorges and hence a connected person of the Company. Accordingly, transactions between the Group and each of the State-owned Tobacco Companies Customers would, on a strict interpretation of the Listing Rules, constitute connected transactions of the Company.

A table summarizing the details of the transactions during the year ended 31 December 2016 as below:

		Aggregate amount of the transaction during the year ended 31 December 2016 RMB (approximately)	**Relevant annual cap for the year ended 31 December 2016** RMB (approximately)	**Date of announcement**	**Terms of the agreement(s) for the transaction**
(1)	Sale of product from the Group to China Tobacco Shaanxi	–	310,000	6 February 2015	From 6 February 2015 to 31 January 2016
(2)	Sale of product from the Group to China Tobacco Guizhou	5,178,836	10,310,000	30 June 2015	From 30 June 2015 to 31 March 2017
(3)	Sale of product from the Group to Xiamen Tobacco	5,370,477	11,270,000	13 July 2015	From 13 July 2015 to 30 June 2016
(4)	Sale of product from the Group to China Tobacco Henan	49,711,973	107,520,000	19 August 2015	From 19 August 2015 to 31 December 2016
(5)	Sale of product from the Group to China Tobacco Hubei	–	2,540,000	8 October 2015	From 8 October 2015 to 31 December 2016
(6)	Sale of product from the Group to China Tobacco Henan	16,902,120	45,090,000	20 October 2015	From 20 October 2015 to 31 July 2016
(7)	Sale of product from the Group to China Tobacco Hunan	13,995,595	44,080,000	13 November 2015	From 13 November 2015 to 31 July 2016
(8)	Sale of product from the Group to China Tobacco Shaanxi	–	1,890,000	21 December 2015	From 21 December 2015 to 30 June 2016
(9)	Sale of product from the Group to China Tobacco Shandong	–	7,770,000	21 December 2015	From 1 January 2016 to 31 December 2016

Directors' Report (Continued)

		Aggregate amount of the transaction during the year ended 31 December 2016 RMB (approximately)	Relevant annual cap for the year ended 31 December 2016 RMB (approximately)	Date of announcement	Terms of the agreement(s) for the transaction
(10)	Sale of product from the Group to China Tobacco Hebei	1,333,000	4,300,000	21 December 2015	From 1 January 2016 to 31 December 2016
(11)	Sale of product from the Group to Yunnan Tobacco Materials	65,526,681	69,230,000	29 December 2015	From 1 January 2016 to 31 December 2016
(12)	Sale of product from the Group to China Tobacco Henan	5,581,551	9,270,000	29 December 2015	From 1 January 2016 to 31 December 2016
(13)	Sale of product from the Group to Hongta Group	18,724,987	19,580,000	7 January 2016	From 7 January 2016 to 31 December 2017
(14)	Sale of product from the Group to China Tobacco Hunan	6,011,940	7,260,000	20 January 2016	From 20 January 2016 to 31 July 2016
(15)	Sale of product from the Group to Yunnan Tobacco Materials	5,801,553	8,640,000	3 February 2016	From 3 February 2016 to 31 December 2016
(16)	Sale of product from the Group to Shanxi Kunming Tobacco	–	11,780,000	3 February 2016	From 3 February 2016 to 31 December 2016
(17)	Sale of product from the Group to Shenzhen Tobacco Industrial	19,189,074	21,200,000	3 February 2016	From 3 February 2016 to 31 December 2016
(18)	Sale of product from the Group to Inner Mongolia Kunming Cigarettes	48,277,927	54,026,000	3 February 2016	From 3 February 2016 to 31 December 2016
(19)	Sale of product from the Group to Heilongjiang Tobacco Industrial	20,804,725	21,450,000	3 February 2016	From 3 February 2016 to 31 July 2016
(20)	Sale of product from the Group to China Tobacco Shaanxi	686,199	1,940,000	10 March 2016	From 10 March 2016 to 30 June 2017
(21)	Sale of product from the Group to Shanxi Kunming Tobacco	39,716,278	47,140,000	10 March 2016	From 10 March 2016 to 31 December 2016
(22)	Sale of product from the Group to Yunnan Tobacco Materials	4,450,717	4,640,000	7 April 2016	From 7 April 2016 to 31 December 2016
(23)	Sale of product from the Group to Inner Mongolia Kunming Cigarettes	3,096,513	3,140,000	7 April 2016	From 7 April 2016 to 31 December 2016
(24)	Sale of product from the Group to Hainan Hongta Cigarette	14,238,152	20,460,000	7 April 2016	From 7 April 2016 to 31 December 2016
(25)	Sale of product from the Group to China Tobacco Hubei	10,633,494	12,000,000	7 April 2016	From 7 April 2016 to 31 December 2016
(26)	Sale of product from the Group to China Tobacco Sichuan	41,041,745	90,370,000	9 May 2016	From 9 May 2016 to 31 December 2016
(27)	Sale of product from the Group to China Tobacco Guizhou	9,626,440	18,000,000	9 May 2016	From 9 May 2016 to 31 December 2016
(28)	Sale of product from the Group to China Tobacco Sichuan	1,027,695	5,456,000	27 July 2016	From 27 July 2016 to 31 December 2016
(29)	Sale of product from the Group to China Tobacco Chongqing	1,170,000	7,050,000	27 July 2016	From 27 July 2016 to 31 December 2016

Directors' Report (Continued)

		Aggregate amount of the transaction during the year ended 31 December 2016 RMB (approximately)	Relevant annual cap for the year ended 31 December 2016 RMB (approximately)	Date of announcement	Terms of the agreement(s) for the transaction
(30)	Sale of product from the Group to China Tobacco Hunan	18,817,917	22,790,000	27 July 2016	From 27 July 2016 to 31 December 2016
(31)	Sale of product from the Group to China Tobacco Henan	22,956,828	35,000,000	27 July 2016	From 27 July 2016 to 31 December 2016
(32)	Sale of product from the Group to Heilongjiang Tobacco Industrial	44,095,140	47,000,000	7 September 2016	From 7 September 2016 to 31 December 2016
(33)	Sale of product from the Group to Xiamen Tobacco	6,506,595	8,540,000	7 September 2016	From 7 September 2016 to 30 June 2017
(34)	Sale of product from the Group to China Tobacco Henan	1,252,856	3,915,000	31 October 2016	From 31 October 2016 to 31 December 2016
(35)	Sale of product from the Group to China Tobacco Hunan	11,028,808	13,000,000	31 October 2016	From 31 October 2016 to 31 December 2018
(36)	Sale of product from the Group to China Tobacco Yunnan	4,263,956	17,321,000	31 October 2016	From 31 October 2016 to 31 December 2016
(37)	Sale of product from the Group to Wuhan Hongjinlong	21,773,400	21,900,000	31 October 2016	From 31 October 2016 to 31 December 2016
(38)	Sale of product from the Group to China Tobacco Hunan	–	4,500,000	5 December 2016	From 5 December 2016 to 31 December 2018
(39)	Sale of product from the Group to China Tobacco Yunnan	419,780	7,340,000	5 December 2016	From 5 December 2016 to 31 December 2016
(40)	Sale of product from the Group to Shenzhen Tobacco Industrial	9,304,520	11,080,000	5 December 2016	From 5 December 2016 to 31 December 2016
(41)	Machinery rental service income and subcontracting income received from Wuhan Hongjinlong	2,117,444	5,170,000	5 December 2016	From 5 December 2016 to 28 February 2017
(42)	Sale of product from the Group to Hainan Tobacco	–	2,500,000	23 December 2016	From 23 December 2016 to 31 January 2018

Directors' Report (Continued)

The selling prices of paper cigarette packages are fixed under the agreements with the relevant State-owned Tobacco Companies Customers (which are, in general, within or determined with reference to, the price ranges specified in the relevant tender documents and for new products are determined with reference to the prices offered by the Group, which are in turn determined with reference to, inter alia, its costs of production).

(B) Purchase of paper by the Group from connected persons

The following are the suppliers of the Group which are our connected persons and the transactions with during the year ended 31 December 2016:

1. Zhuhai Huafeng Paper Company Limited (珠海華豐紙業有限公司) ("Zhuhai Huafeng"), an entity in which China Tobacco Yunnan indirectly owns more than 30% equity interest; and

2. Zhuhai Special Economic Zone Hongta Ren Heng Paper Co., Limited (珠海經濟特區紅塔仁恒紙業有限公司) ("Hongta Ren Heng"), an entity in which China Tobacco Yunnan indirectly owns approximately 30% equity interest.

One of the State-owned Tobacco Companies Customers, China Tobacco Yunnan, designated two suppliers to supply paper to the Group as its cigarette package manufacturer:

(1) the Group entered into a paper purchase contract with Zhuhai Huafeng dated 10 March 2016 for a term of one year for the supply of paper for a sub-brand of China Tobacco Yunnan in which the purchase by the Group was not be more than RMB4,500,000 for the year ended 31 December 2016. Hongta Group being a wholly-owned subsidiary of China Tobacco Yunnan, owns approximately 32.5% interest in Zhuhai Huafeng. Hence, Zhuhai Huafang is a connected person of the Company under the Listing Rules. The selling prices of paper are fixed under the paper purchase contract.

(2) the Group entered into a paper purchase contract with Hongta Ren Heng dated 10 March 2016 for a term of one year for the supply of paper for a sub-brand of China Tobacco Yunnan in which the purchase by the Group was not be more than RMB6,640,000 for the year ended 31 December 2016. Hongta Group, being a wholly-owned subsidiary of China Tobacco Yunnan, owns approximately 30% interest in Hongta Ren Heng. Hence, Hongta Ren Heng is a connected person of the Company under the Listing Rules. The selling prices of paper are fixed under the paper purchase contract.

A table summarizing the details of the transactions during the year ended 31 December 2016 is below:

		Aggregate amount of the transaction during the year ended 31 December 2016 RMB (approximately)	**Relevant annual cap for the year ended 31 December 2016** RMB (approximately)	**Date of announcement**
(1)	Purchase of paper from Zhuhai Huafeng	3,302,898	4,500,000	10 March 2016
(2)	Purchase of paper from Hongta Ren Heng	2,356,448	6,640,000	10 March 2016

Directors' Report (Continued)

(C) Compensation of Key Management personnel

The transactions under the compensation of key management personnel in note 25 were provided under the service contracts of relevant management and thus were all fully exempted pursuant to Chapter 14A of the Listing Rules.

The material related party transactions are set out in note 25 to the consolidated financial statements in this annual report.

Save as disclosed above in this report, there were no other material transactions which would constitute connected transactions or continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are not fully exempted from shareholders' approval, annual review and all disclosure requirements under the Listing Rules during the year ended 31 December 2016. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year ended to 31 December 2016.

Directors

As at the date of this annual report, the Directors are:

Executive Directors

Mr. Li Tie
Mr. Liu Daoqi
Mr. Huang Erwei

Non-executive Director

Mr. Yang Yoong An

Independent non-executive Directors

Mr. Zeng Shiquan
Mr. Gong Jinjun
Mr. Wang Ping

In accordance with Article 108(a) of the Article of Association, at each annual general meeting, one-third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Directors' Report (Continued)

Directors' Service Agreements

Each of the executive Directors has entered into a service agreement with the Company for an initial term commencing on the date of appointment and ending on the conclusion of the 2020 annual general meeting of the Company to be held in 2021, subject to the termination provision therein. Each of the executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

The non-executive Director has entered into a service agreement with the Company for an initial term commencing on the date of appointment and ending on the conclusion of the 2020 annual general meeting of the Company to be held in 2021, subject to the termination provision therein. The non-executive Director or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the independent non-executive Directors has renewed the service agreement with the Company as an independent non-executive Director for a term commencing from 25 May 2016 and ending on the conclusion of the 2016 annual general meeting of the Company to be held in 2017. Each of the independent non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting 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 normal statutory obligations.

Biographies of Directors and Other Senior Management

The biographical details of Directors and other senior management are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 11 to 14 of this annual report.

Emolument Policies and Directors' Remuneration

The Directors' remuneration is subjected to shareholders' approval at general meetings with reference to the recommendation of the Group's Remuneration Committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

Directors' Interests in Contracts

There was no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest subsisted as at 31 December 2016 or at any time during the year ended 31 December 2016.

Controlling Shareholders' Interests in Contracts

Save as disclosed in this annual report, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling Shareholders or any of their subsidiaries at any time during the year ended 31 December 2016.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

Directors' Report (Continued)

Permitted Indemnity

Pursuant to the Articles of Association, the Directors, managing Directors, alternate directors, auditors, secretary and other officers for the time being of the Company shall be indemnified and secured harmless out of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their duty in their offices or in relation thereto.

Retirement Benefits Schemes

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and a defined contribution Mandatory Provident Fund Scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 24 to the consolidated financial statements in this annual report.

Distributable Reserves

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2016 amounted to approximately RMB25.2 million (as at 31 December 2015: approximately RMB25.2 million).

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of the Associated Corporations

As at 31 December 2016, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules on the Stock Exchange, notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company

Name	Capacity/Nature of interest	No. of ordinary shares held	Percentage of interest
Mr. Yang Yoong An ("Mr. Yang")	Interest of a controlled corporation (Note 1)	29,400,000	9.80%

(ii) Long position in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/Nature of interest	No. of ordinary shares held	Percentage of interest
Mr. Yang [(1)]	Spearhead Leader Limited ("Spearhead Leader")	Beneficial owner	1	100%

Notes:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader. Therefore, Mr. Yang is deemed, or taken to be, interested in 29,400,000 shares of the Company held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader.

Directors' Report (Continued)

Other members of our Group

Name of subsidiary	Name of shareholder	Percentage of shareholding
Hubei Golden Three Gorges Printing Industry Co., Ltd.	Hubei Three Gorges Tobacco Co., Ltd.	17.14%

Interests of Substantial Shareholders in Shares and Underlying Shares of the Company

So far as is known to the Directors, as at 31 December 2016, the following persons (not being a Director or chief executive of the Company) had interests or short positions in shares or underlying shares of the Company which fell to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Capacity/Nature of interest	No. of ordinary shares held/ interested	Percentage of shareholding
Spearhead Leader	Beneficial owner	29,400,000	9.80%
Ms. Cai Yaohui ("Ms. Cai")	Interest of spouse (Note 1)	29,400,000	9.80%
China Civil Aviation (Cayman) Investment Group Limited ("CCA")	Beneficial owner (Note 2)	195,600,000	65.20%
Hainan Province Cihang Foundation (海南省慈航公益基金會) ("Cihang Foundation")	Interest of controlled corporations (Note 2)	195,600,000	65.20%
Hainan Traffic Administration Holding Co. Ltd. (海南交管控股有限公司) ("Hainan Traffic")	Interest of controlled corporations (Note 2)	195,600,000	65.20%
HNA Group Co., Ltd (海航集團有限公司) ("HNA Group")	Interest of controlled corporations (Note 2)	195,600,000	65.20%
Tang Dynasty Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司) ("TD Development")	Interest of controlled corporations (Note 2)	195,600,000	65.20%
HNA Aviation Co., Ltd.* (海航航空集團有限公司) ("HNA Aviation")	Interest of controlled corporations (Note 2)	195,600,000	65.20%

Notes:

1. Ms. Cai is the spouse of Mr. Yang. Accordingly Ms. Cai is deemed, or taken to be, interested in all shares of the Company in which Mr. Yang is interested in for the purpose of the SFO.

2. CCA is a wholly-owned subsidiary of HNA Aviation. HNA Aviation is owned as to approximately 86.54% by HNA Group. HNA Group is owned as to 70% by Hainan Traffic. Hainan Traffic is owned as to 50% by TD Development. TD Development is owned as to 65% by Cihang Foundation.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which fell to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Directors' Report (Continued)

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a shareholders' resolution passed on 6 June 2014. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30,000,000 shares, being 10% of the shares of the Company in issue on the Listing Date, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive Directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's issued share capital in aggregate or with an aggregate value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The subscription price of share in respect of options granted under the Share Option Scheme shall be solely determined is determinable by the Board, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the grant of the share options which must be a business day; (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share of the Company.

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the adoption date (i.e. 6 June 2014) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

No options were granted, exercised, cancelled or lapsed and there were no outstanding options under the Share Option Scheme from the date of its adoption to the date of this report. A summary of the principal terms and conditions of the Share Option Scheme is set out in Appendix V to the prospectus of the Company dated 17 June 2014.

Competing Business and Conflicts of Interests

None of the Directors, management shareholders or substantial shareholders of the Company or any of their respective close associates (as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interests with the Group.

Compliance with Non-competition Undertakings

On 6 June 2014, each of Mr. Yang Yoong An and Spearhead Leader (the controlling Shareholder of the Company which is a wholly-owned subsidiary of Mr. Yang Yoong An, together with Mr. Yang Yoong An, the "Covenantors") executed in favour of the Company (for itself and for the benefit of each other member of our Group) a deed of non-competition undertaking (the "Deeds").

Pursuant to the Deeds, during the period that the Deeds remain effective, each of the Covenantors irrevocably and unconditionally undertakes to our Company (for itself and for the benefit of each other member of our Group), inter alia, that:

(i) he/it shall not, and shall procure his or its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group; and

Directors' Report (Continued)

(ii) when business opportunities which may compete with the business of our Group arise, the respective Covenantor(s) shall, and shall procure their respective associates to, give our Company notice in writing and we shall have a right of first refusal to take up such business opportunities. We shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such proposed transactions). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal. Within 30 days after receipt of written notice concerning offer of such business opportunities from the Covenantor(s) or his/its associate(s), we shall notify the Covenantor(s) whether we intend to accept the offer. If we decline any such offer, the Covenantor(s) and/or his/its associate(s) shall then be allowed to acquire the business opportunities offered on terms no more favorable than those offered to us.

Pursuant to the annual declaration in relation to the compliance with the Deeds provided by Mr. Yang Yoong An and Spearhead Leader respectively, each of them confirms that during the year ended 31 December 2016, all the relevant terms of the Non-competition Undertaking A have been fully complied with in all material respects.

All independent non-executive Directors have, based on the information available to them, reviewed on the compliance with the Deeds and the decisions taken in relation to whether to pursue the new opportunity under the Deeds (if any), and are of the view that each of the Covenantors has complied with the relevant Deed during the year ended 31 December 2016.

On 21 December 2016, Spearhead Leader executed the sale and purchase agreement disposing of 179,962,000 Shares to China Civil Aviation. Upon the completion of the above sale and purchase agreement on 30 December 2016, Spearhead Leader Limited held 29,400,000 Shares, constituting an aggregate of approximately 9.80% of the Company's total issued capital. Hence, both Mr. Yang Yoong An and Spearhead Leader ceased to be controlling shareholders of the Company, and the Deeds shall no longer be effective. For further details, please refer to the announcements of the Company dated 23 December 2016 and 30 December 2016, respectively.

Corporate Governance

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 15 to 24 of this annual report.

Environmental Policies and Performance

As a responsible corporation, the Group strives to ensure minimal environmental impacts by carefully managing our energy consumption, water usage and waste production. At office level, the Company has implemented green initiatives and encourage staff to attend related training. For further details, please refer to the environmental, social and governance report of this annual report.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Group. The Group has been allocating staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working with relevant authorities effectively through effective communications. To the best of knowledge of the management, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group during the year ended 31 December 2016.

Directors' Report (Continued)

Audit Committee

The Company has an Audit Committee with terms of reference aligned with the provision of the Code as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Gong Jinjun. This annual report and the financial results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

Business Review

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, can be found in the section headed "Management Discussion and Analysis" as set out on pages 5 to 10 of this annual report. These discussions form part of this Directors' Report.

Charitable Donations

No charitable donations was made by the Group during the year ended 31 December 2016 (2015: nil).

Confirmation of Independence

The Company has received from the independent non-executive Directors confirmations of independence (including an annual confirmation from each of the independent non-executive Directors) pursuant to Rule 3.13 of the Listing Rules and considers that all the independent non-executive Directors are independent of the Company under the Listing Rules.

Sufficiency of Public Float

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

Auditor

HLB Hodgson Imply Cheng Limited have been appointed as auditors of the Company for the year ended 31 December 2016. The Company has not changed its external auditors since the Listing Date and up to the date of this annual report.

HLB Hodgson Imply Cheng Limited will retire at the forthcoming annual general meeting and will not offer themselves for reappointment as auditors of the Company.

The Board has resolved, with the recommendation from the Audit Committee, to propose the appointment of PricewaterhouseCoopers as new auditors of the Company following the retirement of HLB Hodgson Imply Cheng Limited and to hold office until the conclusion of the next annual general meeting of the Company, subject to approval by shareholders of the Company at the forthcoming annual general meeting.

The proposed change of auditors was due to change in control of the Company after the close of the unconditional mandatory cash offer made by First Shanghai Securities Limited for and on behalf of China Civil Aviation.

On behalf of the Board

Li Tie
Chairman
Hong Kong, 21 March 2017

Independent Auditors' Report

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF JIA YAO HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Jia Yao Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 103, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

Independent Auditors' Report (Continued)

Key Audit Matters (Continued)

Valuation of trade receivables

Refer to note 16 to the consolidated financial statements.

As at 31 December 2016, trade receivables amounted to approximately RMB206,210,000 (net of allowance for doubtful debts of approximately RMB146,000).

We identified the valuation of trade receivables as a key audit matter due to the size of the balance and the use of judgement and estimates in assessing the recoverability of trade receivables.

In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables.

Our procedures in relation to valuation on trade receivables included:

- Obtaining an understanding of how management perform credit monitoring and estimate allowance for doubtful debts;
- Testing the ageing analysis of the trade receivables to the underlying sales invoices and delivery notes;
- Reviewing the ageing analysis of the trade receivables throughout the year to understand the settlement patterns by the customers; and
- Testing subsequent settlement of trade receivable balances and assessing the reasonableness of recoverability of receivables that were past due with reference to the credit history of those customers, including default or delay in payments, settlement records and correspondence and ageing analysis of each individual customer.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and The Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditors' Report (Continued)

Auditors' 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 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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.

Independent Auditors' Report (Continued)

Auditors' 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 auditors' 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 director on the audit resulting in this independent auditors' report is Kwok Kin Leung.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Kwok Kin Leung
Practising Certificate Number: P05769

Hong Kong, 21 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	**2016** **RMB'000**	2015 RMB'000
Revenue	5	**516,074**	495,089
Cost of sales		**(412,760)**	(395,115)
Gross profit		**103,314**	99,974
Other income	6	**2,945**	8,067
Other gains and losses	6	**(1,094)**	1,964
Selling and distribution expenses		**(31,191)**	(29,496)
Administrative and other operating expenses		**(55,033)**	(57,519)
Finance costs	7	**(9,791)**	(13,981)
Profit before tax		**9,150**	9,009
Income tax expense	8	**(4,516)**	(4,944)
Profit for the year	9	**4,634**	4,065
Other comprehensive income/(expense) for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**112**	(575)
Total comprehensive income for the year		**4,746**	3,490
Profit for the year attributable to:			
Owners of the Company		**2,556**	2,507
Non-controlling interests		**2,078**	1,558
		4,634	4,065
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,668**	1,932
Non-controlling interests		**2,078**	1,558
		4,746	3,490
Earnings per share			
— Basic and diluted (RMB)	12	**0.01**	0.01

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**168,160**	184,008
Prepaid lease payments	14	**20,599**	21,179
Deferred tax assets	20	**1,501**	2,071
		190,260	207,258
Current assets			
Inventories	15	**109,559**	110,134
Trade and other receivables	16	**276,313**	262,000
Prepaid lease payments	14	**580**	580
Current tax assets		**–**	329
Pledged bank deposits	17	**54,013**	97,000
Bank balances and cash	17	**58,199**	55,194
		498,664	525,237
Total assets		**688,924**	732,495

Consolidated Statement of Financial Position (Continued)

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Current liabilities			
Trade and other payables	18	**303,414**	359,255
Borrowings	19	**150,000**	143,500
Current tax liabilities		**877**	–
		454,291	502,755
Net current assets		**44,373**	22,482
Total assets less current liabilities		**234,633**	229,740
Non-current liabilities			
Deferred tax liabilities	20	**4,043**	3,896
		4,043	3,896
Net assets		**230,590**	225,844
Capital and reserves			
Share capital	21	**2,382**	2,382
Reserves	23	**189,444**	186,776
Equity attributable to owners of the Company		**191,826**	189,158
Non-controlling interests		**38,764**	36,686
Total equity		**230,590**	225,844

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2017 and signed on its behalf by:

Li Tie
Executive Director

Huang Erwei
Executive Director

Consolidated Statement of Changes in Equity

	Attributable to owners of the Company								
	Share capital RMB'000 (Note 21)	**Share premium** RMB'000	**Special reserve** RMB'000 (Note 23)	**PRC statutory reserve** RMB'000 (Note 23)	**Retained profits** RMB'000	**Translation reserve** RMB'000 (Note 23)	**Subtotal** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2015	2,382	64,200	91,448	41,188	26,792	216	226,226	35,128	261,354
Profit for the year	–	–	–	–	2,507	–	2,507	1,558	4,065
Other comprehensive expense for the year	–	–	–	–	–	(575)	(575)	–	(575)
Total comprehensive income for the year	–	–	–	–	2,507	(575)	1,932	1,558	3,490
Distribution of special dividend (Note 11)	–	(39,000)	–	–	–	–	(39,000)	–	(39,000)
Transfer to PRC statutory reserve	–	–	–	1,123	(1,123)	–	–	–	–
Balance at 31 December 2015	**2,382**	**25,200**	**91,448**	**42,311**	**28,176**	**(359)**	**189,158**	**36,686**	**225,844**
Profit for the year	–	–	–	–	2,556	–	2,556	2,078	4,634
Other comprehensive income for the year	–	–	–	–	–	112	112	–	112
Total comprehensive income for the year	–	–	–	–	2,556	112	2,668	2,078	4,746
Transfer to PRC statutory reserve	–	–	–	1,760	(1,760)	–	–	–	–
Balance as at 31 December 2016	**2,382**	**25,200**	**91,448**	**44,071**	**28,972**	**(247)**	**191,826**	**38,764**	**230,590**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Profit for the year		**4,634**	4,065
Adjustments for:			
Income tax expense recognised in profit or loss		**4,516**	4,944
Finance costs		**9,791**	13,981
Interest income		**(1,420)**	(1,990)
Amortisation of prepaid lease payments		**580**	580
Depreciation of property, plant and equipment		**20,966**	20,170
Loss on disposal of property, plant and equipment		**984**	1,325
Gain on disposal of assets classified as held for sale		**–**	(3,280)
Recognition/(reversal) of impairment losses on trade receivables		**110**	(9)
Operating cash flows before movements in working capital		**40,161**	39,786
Decrease/(increase) in inventories		**575**	(22,942)
Increase in trade and other receivables		**(17,413)**	(63,756)
(Decrease)/increase in trade and other payables		**(55,841)**	145,193
Cash (used in)/generated from operations		**(32,518)**	98,281
Interest received		**1,420**	1,990
Income tax paid		**(2,593)**	(4,529)
Net cash (used in)/generated by operating activities		**(33,691)**	95,742

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Cash flows from investing activities			
Decrease/(increase) in pledged bank deposits		**42,987**	(37,974)
Proceeds from disposals of assets classified as held for sale		**–**	7,189
Purchase of property, plant and equipment and related deposits paid		**(3,185)**	(21,321)
Proceeds from disposal of property, plant and equipment		**79**	206
Net cash generated by/(used in) investing activities		**39,881**	(51,900)
Cash flows from financing activities			
Proceeds from borrowings		**180,000**	173,500
Repayments of borrowings		**(173,500)**	(213,000)
Dividend paid	11	**–**	(39,000)
Interest paid		**(7,840)**	(9,387)
Other finance costs paid		**(1,951)**	(4,594)
Net cash used in financing activities		**(3,291)**	(92,481)
Net increase/(decrease) in cash and cash equivalents		**2,899**	(48,639)
Cash and cash equivalents at the beginning of year		**55,194**	104,416
Effect of foreign currency exchange difference		**106**	(583)
Cash and cash equivalents at the end of year		**58,199**	55,194
Representing:			
Bank balances and cash		**58,199**	55,194

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 5 August 2013 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 June 2014 (the "Listing Date"). Since 30 December 2016, the Company's ultimate holding company has been HNA Group Co., Ltd ("HNA Group"), a company registered in the People's Republic of China (the "PRC"), and the Company's immediate holding company has been China Civil Aviation (Cayman) Investment Group Limited ("China Civil Aviation"), a company incorporated in the Cayman Islands with limited liability. The addresses of registered office and principal place of business of the Company are disclosed in the Corporate Information section of this annual report.

The Company acts as an investment holding company while its principal subsidiaries are principally engaged in the design, printing and sales of paper cigarette packages and social product paper packages in the PRC as set out in Note 31 to the consolidated financial statements.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates. The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is different from the functional currency of the Company as the Group's dominated operations are substantially based in the PRC and the Directors consider that the choice of presentation currency would better reflect the Group's business transactions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied for the first time in the current year the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract;

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB1,143,000 as disclosed in note 27. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The Group is in the process of making an assessment on what the impact of the other new or revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below:

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the 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 owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for common control combinations

The consolidated financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Business combinations (other than business combinations involving entities under common control)

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Business combinations (other than business combinations involving entities under common control) (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *(Income Taxes)* and HKAS 19 *(Employee Benefits)* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *(Share-based Payment)* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *(Non-current Assets Held for Sale and Discontinued Operations)* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *(Provisions, Contingent Liabilities and Contingent Assets)*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Business combinations (other than business combinations involving entities under common control) (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

Subcontracting income is recognised when the subcontracting services are rendered.

Machinery rental income is derived from the use of the leased assets recognised with reference to the size of production.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve attributed to non-controlling interests (as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, 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 added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. 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 construction in progress as described below) are stated at cost less subsequent accumulated depreciation and impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Impairment of tangible and intangible assets other than goodwill (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into the following specified categories, including financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income" and "other gains and losses" line items in the consolidated statement of profit or loss and other comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of each of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is measured the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of investment can be objectively related to an event occurring after the recognition of the impairment loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or it is designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities and is included in the "other gains and losses" line item.

Other financial liabilities

Other financial liabilities (including trade and other payables and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. Significant Accounting Policies (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding income taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding income taxes are provided.

Key sources of estimation uncertainty

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

Estimated useful lives of property, plant and equipment

The Group estimates useful lives, residual values and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. The depreciation charge will increase where useful lives are less than previously estimated. Details of the useful lives of property, plant and equipment are disclosed in Note 13.

Impairment of trade receivables

In determining whether an impairment loss on trade receivables is required, the Group takes into consideration the credit history, ageing status and the likelihood of collection. Following the identification of doubtful debts, the Group's responsible personnel discuss with the relevant customers and debtors and report to management on the recoverability. An impairment loss is only made for receivables that are unlikely to be collected. The carrying amount of trade receivables was approximately RMB206,210,000 (2015: RMB216,821,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Net realisable value of inventories

The Group writes down inventories for obsolescence based on an assessment of the net realisable value of inventories. Write-down is applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the carrying amount of inventories. The identification of obsolete inventories requires the use of judgements and estimates on the conditions and usefulness of the inventories. The amount of write-down would be changed as a result of the changes in current market conditions subsequently.

As at 31 December 2016, the carrying amounts of inventories are approximately RMB109,559,000 (2015: approximately RMB110,134,000).

5. Revenue and Segment Information

Revenue

Revenue represents revenue arising on sales of paper cigarette packages, sales of social product paper packages, machinery rental services and subcontracting services.

An analysis of revenue is as follows:

	2016	2015
	RMB'000	RMB'000
Sales of paper cigarette packages	**476,123**	459,460
Sales of social product paper packages	**37,834**	35,629
Machinery rental service income	**750**	–
Subcontracting income	**1,367**	–
	516,074	495,089

Segment information

The Group manages its businesses by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments are as follows:

Paper cigarette packages	—	design, printing and sale of paper cigarette packages, renting of imprinting machinery and subcontracting for imprinting and processing of paper cigarette packages
Social product paper packages	—	design, printing and sale of social product paper packages (e.g. packages for alcohol, medicines and food)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

5. Revenue and Segment Information (Continued)

Segment information (Continued)

For the year ended 31 December 2016:

	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Total RMB'000
Segment revenue	**478,240**	**37,834**	**516,074**
Segment profit	**69,738**	**2,385**	**72,123**
Other income			**2,945**
Other gains and losses			**(1,094)**
Administrative and other operating expenses			**(55,033)**
Finance costs			**(9,791)**
Profit before tax			**9,150**

For the year ended 31 December 2015:

	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Total RMB'000
Segment revenue	459,460	35,629	495,089
Segment profit	70,276	202	70,478
Other income			8,067
Other gains and losses			1,964
Administrative and other operating expenses			(57,519)
Finance costs			(13,981)
Profit before tax			9,009

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

5. Revenue and Segment Information (Continued)

Segment information (Continued)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

The accounting policies of the operating and reportable segments information are the same as the Group's accounting policies described in Note 3. Segment results represents the profit earned by each segment without allocation of other income, other gains and losses, administrative and other operating expenses, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Other segment information

	2016 RMB'000	2015 RMB'000
Paper cigarette packages:		
Depreciation of property, plant and equipment	**19,510**	18,875
Social product paper packages:		
Depreciation of property, plant and equipment	**1,456**	1,295

Segment assets and liabilities

Segment assets and liabilities are not disclosed as they are not regularly provided to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Geographical information

As all of the Group's revenue is derived from customers located in the PRC and most of the Group's identifiable non-current assets are principally located in the PRC, no geographical segment information is presented.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

5. Revenue and Segment Information (Continued)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Customer A	**–**	78,966
Customer B	**81,597**	151,137
Customer C	**55,470**	14,559
Customer D	**84,635**	28,517

These revenues are attributable to paper cigarette packages.

6. Other Income, Gains and Losses

	2016 RMB'000	2015 RMB'000
Other income		
Government grants (Note)	**735**	4,442
Interest income on bank deposits	**1,420**	1,990
Sundry income	**790**	1,635
	2,945	8,067
Other gains and losses		
Loss on disposal of property, plant and equipment	**(984)**	(1,325)
Gain on disposal of assets classified as held for sale	**–**	3,280
(Recognition)/reversal of impairment losses on trade receivables	**(110)**	9
	(1,094)	1,964

Note: Government grants represented subsidies from various PRC governmental authorities which had no conditions or limitations attached.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

7. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on bank and other borrowings	7,840	9,387
Finance costs arising on early redemption of note receivables	1,705	4,085
Other bank charges	246	509
Total finance costs	9,791	13,981

8. Income Tax Expense

	2016 RMB'000	2015 RMB'000
Current tax:		
– PRC Enterprise Income Tax ("EIT")	1,934	4,243
– Underprovision in prior years	1,865	–
Deferred tax (Note 20)	717	701
	4,516	4,944

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit arising in or derived from Hong Kong for both years.

On 16 March 2007, the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New EIT Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New EIT Law. Under the New EIT Law and Implementation Regulation, the statutory EIT rates of the Group's subsidiaries in the PRC have been reduced to 25% from 1 January 2008 onwards, except for a major PRC operating subsidiary namely Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), which is qualified as the High and New Technology Enterprise since 16 September 2009, Hubei Golden Three Gorges was entitled to a preferential income tax rate of 15% for the periods from 16 September 2009 to 20 November 2015 and subsequently extended to 28 October 2018.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

8. Income Tax Expense (Continued)

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	**9,150**	9,009
Tax at PRC EIT rate of 25%	**2,288**	2,252
Tax effect of expenses not deductible for tax purpose	**4,821**	5,099
Tax effect of income not taxable for tax purpose	**(3,778)**	(2,451)
Tax effect of income tax on concessionary rate	**(1,289)**	(1,271)
Taxation in other jurisdiction	**462**	530
Tax effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**147**	785
Underprovision in prior years	**1,865**	–
Income tax expense for the year	**4,516**	4,944

9. Profit for the Year

Profit for the year has been arrived at after charging/(crediting):

	2016 RMB'000	2015 RMB'000
Staff costs:		
Directors' emoluments (Note 10)	**796**	740
Other staff costs:		
Salaries and other benefits	**51,197**	50,811
Contributions to retirement benefits schemes	**10,763**	10,814
	62,756	62,365
Auditors' remuneration	**766**	826
Amortisation of prepaid lease payments	**580**	580
Depreciation of property, plant and equipment	**20,966**	20,170
Loss on disposal of property, plant and equipment	**984**	1,325
Operating lease rentals in respect of rented premises	**1,910**	1,478
Recognition/(reversal) of impairment losses on trade receivables	**110**	(9)
Cost of inventories recognised as an expense	**412,760**	395,115

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

10. Directors', Chief Executive's and Employees' Emoluments

The emoluments paid or payable to each of the directors and chief executive were as follows:

		Other emoluments		
	Fees RMB'000	**Salaries, allowance and other benefits in kind** RMB'000	**Contributions to retirement benefits schemes** RMB'000	**Total** RMB'000
For the year ended 31 December 2016				
Executive directors				
Mr. Yang Yoong An ("Mr. Yang") (Note (i))	**105**	**–**	**–**	**105**
Mr. Feng Bin ("Mr. Feng") (Note (ii))	**105**	**110**	**36**	**251**
Non-executive director				
Mr. Yang Fan (Note (iii))	**105**	**–**	**–**	**105**
Independent non-executive directors				
Mr. Zeng Shiquan	**105**	**–**	**–**	**105**
Mr. Gong Jinjun	**105**	**–**	**–**	**105**
Mr. Wang Ping	**125**	**–**	**–**	**125**
	650	**110**	**36**	**796**
For the year ended 31 December 2015				
Executive directors				
Mr. Yang (Note (i))	96	–	–	96
Mr. Feng (Note (ii))	96	111	34	241
Non-executive director				
Mr. Yang Fan (Note (iii))	96	–	–	96
Independent non-executive directors				
Mr. Zeng Shiquan	96	–	–	96
Mr. Gong Jinjun	96	–	–	96
Mr. Wang Ping	115	–	–	115
	595	111	34	740

Notes:

(i) Redesignated from an executive director to a non-executive director on 17 March 2017.

(ii) Resigned as executive director on 17 March 2017.

(iii) Resigned as non-executive director on 17 March 2017.

(iv) Mr. Li Tie, Mr. Liu Daoqi and Mr. Huang Erwei were appointed as executive directors of the Company on 24 February 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

10. Directors', Chief Executive's and Employees' Emoluments (Continued)

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, none (2015: none) was a director of the Company whose emoluments are included in the disclosure above. The emoluments of the remaining five (2015: five) individuals were as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries and other benefits	**1,550**	1,576
Contributions to retirement benefits schemes	**187**	170
Total emoluments	**1,737**	1,746

Each of their emoluments for the years ended 31 December 2016 and 2015 was within HK$1,000,000.

No emoluments were paid or payable by the Group to any of the directors or the five highest paid individuals (included directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors has waived any emoluments during the years ended 31 December 2016 and 2015.

11. Dividends

	2016 **RMB'000**	2015 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2015 special dividend – RMB13 cents per share	**–**	39,000

No dividend was paid or proposed for ordinary shareholders of the Company during 2016, nor has any dividend been proposed since the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

12. Earnings Per Share

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

	2016 **RMB'000**	2015 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**2,556**	2,507

	Number of shares	Number of shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**300,000,000**	300,000,000

For the year ended 31 December 2016 and 31 December 2015, the calculation of the basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company and (ii) the weighted average number of ordinary shares.

The numerator and denominator used are the same as those detailed above for the computation of both basic and diluted earnings per share for both years as there were no potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

13. Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
Balance at 1 January 2015	20,394	304,262	13,495	10,256	1,588	349,995
Additions	6,157	26,640	371	243	1,894	35,305
Transfers	560	1,028	–	–	(1,588)	–
Disposals	–	(6,943)	(663)	(1,083)	–	(8,689)
Effect of foreign currency exchange differences	–	–	11	–	–	11
Balance at 31 December 2015	27,111	324,987	13,214	9,416	1,894	376,622
Additions	203	5,755	217	–	–	6,175
Transfers	4	1,516	224	–	(1,744)	–
Disposals	–	(9,519)	(491)	(1,220)	–	(11,230)
Effect of foreign currency exchange differences	–	–	13	–	–	13
Balance at 31 December 2016	**27,318**	**322,739**	**13,177**	**8,196**	**150**	**371,580**
Accumulated depreciation and impairment						
Balance at 1 January 2015	9,814	153,846	10,467	5,472	–	179,599
Depreciation expenses	1,056	17,426	804	884	–	20,170
Eliminated on disposals	–	(5,508)	(624)	(1,026)	–	(7,158)
Effect of foreign currency exchange differences	–	–	3	–	–	3
Balance at 31 December 2015	10,870	165,764	10,650	5,330	–	192,614
Depreciation expenses	1,382	18,398	499	687	–	20,966
Eliminated on disposals	–	(8,840)	(464)	(863)	–	(10,167)
Effect of foreign currency exchange differences	–	–	7	–	–	7
Balance at 31 December 2016	**12,252**	**175,322**	**10,692**	**5,154**	**–**	**203,420**
Carrying amounts						
Balance at 31 December 2016	**15,066**	**147,417**	**2,485**	**3,042**	**150**	**168,160**
Balance at 31 December 2015	16,241	159,223	2,564	4,086	1,894	184,008

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

13. Property, Plant and Equipment (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straightline basis, after taking into account of their residual values, over the following useful lives:

Buildings	10 to 40 years
Plant and machinery	4 to 40 years
Furniture, fixtures and equipment	4 to 10 years
Motor vehicles	5 to 10 years

The buildings shown above are situated on land in the PRC which are held by the Group under medium-term leases.

Details of property, plant and equipment being pledged at the end of the reporting period are set out in Note 26.

14. Prepaid Lease Payments

	2016 **RMB'000**	2015 RMB'000
At the beginning of year	**21,759**	22,339
Amortisation during the year	**(580)**	(580)
At the end of year	**21,179**	21,759
Analysed for reporting purposes as:		
Current portion	**580**	580
Non-current portion	**20,599**	21,179
	21,179	21,759

The prepaid lease payments represent payments for land use rights in the PRC which are held under medium-term lease.

Details of prepaid lease payments being pledged at the end of the reporting period are set out in Note 26.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

15. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**53,610**	59,944
Work in progress	**15,418**	9,794
Finished goods	**40,531**	40,396
	109,559	110,134

16. Trade and Other Receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	**206,356**	216,867
Less: allowance for doubtful debts	**(146)**	(46)
	206,210	216,821
Note receivables	**34,726**	–
Other receivables	**7,401**	9,991
Payments in advance	**6,783**	13,072
Advance to employees	**9,789**	11,020
Prepayments and deposits paid	**11,404**	11,096
Total trade and other receivables	**276,313**	262,000

As at 31 December 2016, included in the Group's trade receivables are receivables from China Tobacco Hubei Industrial Co., Ltd (湖北中煙工業有限責任公司) ("China Tobacco Hubei"), an intermediate holding company of a subsidiary's non-controlling shareholder, Hubei Three Gorges Tobacco Co., Ltd (湖北三峽煙草有限公司) ("Hubei Three Gorges") of approximately RMB2,149,000 (2015: approximately RMB5,114,000). The amounts were unsecured and interest-free.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

16. Trade and Other Receivables (Continued)

Note receivables represented bank acceptance notes with maturity of within six months. Note receivables were unsecured and interest-free.

The above trade and other receivables are denominated in the functional currencies of the relevant group entities.

The average credit period on sales of goods is ranging from 30 to 150 days from the date of invoice.

The following is an analysis of trade receivables by age, presented based on the date of delivery of goods, which approximates the respective revenue recognition dates, and net of allowance for doubtful debts:

	2016 **RMB'000**	2015 RMB'000
0 to 90 days	**139,394**	171,915
91 to 180 days	**57,037**	36,334
181 to 360 days	**6,193**	7,847
Over 360 days	**3,586**	725
	206,210	216,821

The following is an analysis of note receivables by age, presented based on the date of issuance of notes:

	2016 **RMB'000**	2015 RMB'000
0 to 90 days	**27,726**	–
91 to 180 days	**7,000**	–
	34,726	–

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

The trade receivables that are neither past due nor impaired are mainly due from those customers which have long-term relationship with the Group and the repayment history of these customers were good.

Included in the Group's trade receivables are receivables with the following carrying amounts which are past due as at the years ended 31 December 2016 and 2015 for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

16. Trade and Other Receivables (Continued)

Ageing of past due but not impaired

	2016 RMB'000	2015 RMB'000
Overdue by:		
1 to 90 days	28,839	25,814
91 to 180 days	1,590	20,135
181 to 360 days	2,347	456
Over 360 days	358	665
	33,134	47,070

Allowance of the above amount has not been made by the Group as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Directors consider they are in good credit quality.

Movement in the allowance of doubtful debts for trade receivables

	2016 RMB'000	2015 RMB'000
Balance at beginning of year	46	55
Recognition/(reversal) of impairment losses on trade receivables	110	(9)
Amounts written off as uncollectible	(10)	–
Balance at end of year	146	46

Included in the allowances for doubtful debts are individually impaired trade receivables with balances of approximately RMB146,000 (2015: RMB46,000). The individually impaired receivables related to customers that were in financial difficulties or in dispute and the management assessed that the recovery of the amounts is doubtful. The Group does not hold any collateral over these balances.

17. Pledged Bank Deposits and Bank Balances and Cash

The Group

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at rates ranging from 0.3% to 0.35% (2015: 0.3% to 0.35%) per annum.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group which carry interest at rates ranging from 1.1% to 1.3% (2015: 1.62% to 2.55%) per annum. As at 31 December 2016, certain pledged deposits with an aggregate carrying amount of approximately RMB54,013,000 (2015: approximately RMB97,000,000) had been pledged to secure short-term bank loans and note payables. All pledged bank deposits are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant note payables and bank borrowings. Pledged bank deposits are denominated in RMB, the functional currency of the relevant group entities.

As at 31 December 2016, the Group's cash and bank balances with an aggregate carrying amount of approximately RMB57,678,000 (2015: approximately RMB52,842,000) were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

18. Trade and Other Payables

	2016 RMB'000	2015 RMB'000
Trade payables	**177,968**	128,222
Note payables	**107,600**	205,150
Other payables and accruals	**17,846**	25,883
Total trade and other payables	**303,414**	359,255

The above trade and other payables are denominated in the functional currencies of the relevant group entities.

The following is an analysis of trade payables by age, presented based on the date of invoice.

	2016 RMB'000	2015 RMB'000
0 to 90 days	**157,075**	102,548
91 to 180 days	**10,572**	20,139
181 to 360 days	**6,644**	4,605
Over 360 days	**3,677**	930
	177,968	128,222

The following is an analysis of note payables by age, presented based on the date of issuance of notes.

	2016 RMB'000	2015 RMB'000
0 to 90 days	**57,600**	152,100
91 to 180 days	**50,000**	53,050
	107,600	205,150

The average credit period on purchases of goods is ranging from 30 to 90 days from the date of invoice. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Note payables represented bank acceptance notes issued by the Group with maturity of within six months, and were secured by a charge over certain pledged assets of the Group. Details of pledged assets at the end of the reporting period are set out in Note 26.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

19. Borrowings

	2016 **RMB'000**	2015 RMB'000
Secured bank loans	**150,000**	143,500
Denominated in:		
RMB	**150,000**	143,500
Carrying amount repayable:		
On demand or within one year	**150,000**	143,500
Amounts due within one year shown under current liabilities	**150,000**	143,500

The analysis of the Group's borrowings at the end of the reporting period was as follows:

	2016 **RMB'000**	2015 RMB'000
Fixed-rate borrowings	**150,000**	103,500
Floating-rate borrowings	**–**	40,000
	150,000	143,500

The effective interest rates on the Group's borrowings were as follows:

	2016 **%**	2015 %
Fixed-rate borrowings	**5.08**	5.47
Floating-rate borrowings	**–**	5.22

Details of assets pledged for the bank borrowings at the end of the reporting period are set out in Note 26.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

20. Deferred Taxation

The followings are the major deferred tax assets/(liabilities) recognised and movements thereon during the years ended 31 December 2016 and 2015:

	Undistributed earnings of PRC subsidiaries RMB'000	**Accrued expenses** RMB'000	**Total** RMB'000
As at 1 January 2015	(3,111)	1,987	(1,124)
(Charge)/credit to profit or loss	(785)	84	(701)
As at 31 December 2015	(3,896)	2,071	(1,825)
Charge to profit or loss	(147)	(570)	(717)
As at 31 December 2016	**(4,043)**	**1,501**	**(2,542)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016 **RMB'000**	2015 RMB'000
Deferred tax assets	**1,501**	2,071
Deferred tax liabilities	**(4,043)**	(3,896)
	(2,542)	(1,825)

Upon the New Tax Law and Implementation Regulations, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities shall be subject to the withholding income tax at 10% or lower tax rate, as applicable. Under the relevant tax treaty, withholding tax rate on distribution to Hong Kong resident companies is 5%. During the years ended 31 December 2016 and 2015, deferred taxation has been provided on undistributed earnings attributable to non-PRC tax resident equity holders of the subsidiaries in the PRC.

At the end of the reporting period, the Group did not have any unused tax losses available for offset against future profits.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

21. Share Capital

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
As at 31 December 2015 and 2016	2,000,000,000	20,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
As at 31 December 2015 and 2016	300,000,000	3,000

	2016 RMB'000	2015 RMB'000
Share capital, in RMB thousand equivalent	**2,382**	2,382

There was no movement in the Company's share capital during the year.

22. Share Option Scheme

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 6 June 2014 for the primary purpose of attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("Eligible Participants") of the Group and promoting the success of the business of the Group and will remain in force for a period of ten years commencing on the adoption date and shall expire at 5 June 2024. The board of directors of the Company may grant options to Eligible Participants to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. However, the total maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

Options granted must be taken up within 7 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options must be at least the highest of (i) the nominal value of an ordinary share on the date of grant; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the share options; and (iii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the offer.

No share options have been granted under the Scheme since its adoption date.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

23. Reserves

Special reserve

Special reserve comprised of:

(i) An amount of approximately RMB8,798,000, being the difference between the paid-in capital of a subsidiary, and the aggregate amount of the cash capital contribution and the fair value of the property, plant and equipment invested into the subsidiary by its former equity holders;

(ii) An amount of approximately RMB2,009,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of approximately RMB5,300,000 in respect of the acquisition of additional 17% equity interests in a subsidiary. The consideration of approximately RMB5,300,000 was treated as deemed contribution from Mr. Yang;

(iii) An amount of approximately RMB43,378,000 represented the difference between (i) the aggregate consideration payable by a subsidiary to former equity holders for the acquisition of their respective equity interests in subsidiaries pursuant to the reorganisation and (ii) the aggregate amount of paid-in capital of subsidiaries attributable to the former equity holders of these entities;

(iv) An amount of approximately RMB62,000 represented paid-in capital of Giant Harmony Limited ("Giant Harmony") which has been transferred to special reserve pursuant to the reorganisation; and

(v) The capitalised amount due to Mr. Yang and Mr. Feng of approximately RMB110,505,000 and RMB8,152,000 respectively and accounted for as deemed contributions.

PRC statutory reserve

In accordance with the PRC Company Law and the relevant articles of association, the PRC subsidiaries of the Company are required to appropriate amount equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to the PRC statutory surplus reserve. Additional appropriation to the reserve are decided by their board of directors annually.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the registered capital, further appropriation is not required. According to the Company Law of the PRC, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion.

Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in the translation reserve. Exchange differences previously accumulated in the translation reserve in respect of translating the net assets of foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

24. Retirement Benefit Plans

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a certain percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified 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 plan is to make the specified contributions.

The total expenses recognised in profit or loss of approximately RMB10,799,000 (2015: approximately RMB10,848,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

25. Related Party Transactions

Details of balances with related parties are set out in the consolidated statement of financial position and respective notes. Save as the balances disclosed in these consolidated financial statements, the Group entered into the following significant transactions with related parties during the year:

Compensation of key management personnel

The remuneration of the Directors (who are identified as the key management personnel) during the year was as follows:

	2016	2015
	RMB'000	RMB'000
Short-term benefits	**760**	706
Post-employment benefits	**36**	34
	796	740

26. Pledge of Assets

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	2016	2015
	RMB'000	RMB'000
Prepaid lease payments	**21,179**	21,759
Property, plant and equipment	**132,026**	145,830
Trade receivables	**139,795**	111,087
Pledged bank deposits	**54,013**	97,000
	347,013	375,676

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

27. Commitments

Operating leases — the Group as lessee

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**740**	89
In the second to fifth years inclusive	**365**	–
Over five years	**38**	–
	1,143	89

Operating lease payments related to office and staff quarter with lease terms ranging from one to six years (2015: one year) and the Group does not have an option to purchase the leased assets at the expiry of the lease term.

Capital commitment

	2016 **RMB'000**	2015 RMB'000
Contracted but not provided for:		
– Purchase of property, plant and equipment	**2,900**	4,814

28. Non-cash Transactions

The Group entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows:

(i) The Group settled the consideration for the acquisition of certain property, plant and equipment with aggregate carrying amounts of approximately RMB2,990,000 (2015: approximately RMB14,490,000) by bank acceptance notes during the year.

(ii) The Group settled the deposits for the acquisition of property, plant and equipment with aggregate carrying amounts of approximately RMB2,000,000 (2015: approximately RMB2,400,000) by bank acceptance notes during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

29. Capital Risk Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debt (which include borrowings disclosed in note 19, net of cash and cash equivalent) and equity attributable to owners of the Company (comprising issued share capital, reserves and retained profits).

Net debt-to-equity ratio

The management reviews the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of the capital. The management will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The net debt-to-equity ratio at the end of the reporting period was as follows:

	2016 **RMB'000**	2015 RMB'000
Debt	**150,000**	143,500
Cash and cash equivalents	**(58,199)**	(55,194)
Net debt	**91,801**	88,306
Equity	**191,826**	189,158
Net debt-to-equity ratio	**47.86%**	46.68%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

30. Financial Instruments

Categories of financial instruments

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables	**379,213**	397,894
Financial liabilities		
Amortised cost	**453,414**	502,755

The Group's major financial instruments include trade and other receivables, pledged bank deposits and bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risks (interest rate risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effectively manner.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to its floating-rate bank balances and bank borrowings. The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Lending Rates offered by the People's Bank of China on the Group's bank borrowings. The Group has no material interest rate risk exposure.

Currency risk

The Group has minimal exposure to currency risk as the Group's transactions were mainly conducted in RMB, the functional currency of its operating subsidiaries, and their major receivables and payables are denominated in RMB. Accordingly, the Group currently does not have a foreign currency policy and no sensitivity analysis has been presented.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

30. Financial Instruments (Continued)

Credit risk management

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk arising from its trade receivables as 60% (2015: 60%) of these receivables were due from the Group's five largest customers at the end of the reporting period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monetary procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the 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 liquid funds is limited because the counterparties are either state-owned banks or banks with good reputations in the PRC.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenant.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group has available unutilised bank borrowing facilities of approximately RMB96,000,000 (2015: approximately RMB18,000,000).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

30. Financial Instruments (Continued)

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

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

	Weighted average interest rate	On demand or less than 1 year	1 to 5 years	More than 5 years	Total undiscounted cash flows
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016					
Non-derivative financial liabilities					
Trade and other payables	**–**	**303,414**	**–**	**–**	**303,414**
Borrowings	**5.08%**	**152,651**	**–**	**–**	**152,651**
		456,065	**–**	**–**	**456,065**
As at 31 December 2015					
Non-derivative financial liabilities					
Trade and other payables	–	359,255	–	–	359,255
Borrowings	5.40%	146,724	–	–	146,724
		505,979	–	–	505,979

Fair value measurements of financial instruments

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the years presented.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

31. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Place of incorporation or registration/ operations and kind of legal entity	Class of ordinary shares held	Issued and fully paid up share capital/ registered capital	Proportion of ownership interests held by the Group 2016	2015	Principal activities
Giant Harmony	BVI, limited liability company	Ordinary	US$20,000	**100%**	100%	Investment holding
Park Linker Limited ("Park Linker")	Hong Kong, limited liability company	Ordinary	HK$1	**100%**	100%	Investment holding
Easy Creator Limited ("Easy Creator")	Hong Kong, limited liability company	Ordinary	HK$1	**100%**	100%	Investment holding
King Gather Limited ("King Gather")	Hong Kong, limited liability company	Ordinary	HK$100	**100%**	100%	Investment holding
Hubei Golden Three Gorges 湖北金三峽印務有限公司	PRC, cooperative joint venture with limited liability	Registered	RMB78,782,100	**82.86%**	82.86%	Design, printing and sales of paper cigarette packages and social product paper packages in the PRC
Dangyang Liantong Printing Industry Co., Ltd* ("Dangyang Liantong") 當陽金三峽聯通印務有限公司	PRC, cooperative joint venture with limited liability	Registered	RMB40,000,000	**87.15%**	87.15%	Design, printing and sales of paper cigarette packages and social product paper packages in the PRC

* The English translation of Chinese names has been provided for identification and reference purposes only.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

31. Subsidiaries (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The following table lists out the information relating to the Group's subsidiaries which have material non-controlling interests is set out below. The summarised financial information in respect of the Group's material non-controlling interests is set out below.

	2016 RMB'000	2015 RMB'000
NCI percentage	**17.14%**	17.14%
Current assets	**509,095**	530,673
Non-current assets	**190,184**	207,141
Current liabilities	**(452,640)**	(501,390)
Non-current liabilities	**–**	–
Net assets	**246,639**	236,424
Carrying amount of non-controlling interests	**38,764**	36,686
Revenue	**516,074**	495,089
Profit for the year	**10,215**	11,092
Other comprehensive income	**–**	–
Profit allocated to non-controlling interests	**2,078**	1,558
Net cash (outflow to)/inflow from operating activities	**(27,563)**	56,737
Net cash inflow from/(outflow to) investing activities	**39,881**	(53,794)
Net cash outflow to financing activities	**(3,282)**	(53,481)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

32. Statement of Financial Position of the Company

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investment in a subsidiary	**191,120**	191,120
Current assets		
Amounts due from subsidiaries	**1,498**	712
Bank balances and cash	**348**	2,009
Prepayments	**203**	–
	2,049	2,721
Total assets	**193,169**	193,841
Current liabilities		
Other payables and accruals	**1,651**	1,304
Amount due to subsidiaries	**10,280**	8,081
	11,931	9,385
Net current liabilities	**(9,882)**	(6,664)
Total assets less current liabilities	**181,238**	184,456
Capital and reserves		
Share capital	**2,382**	2,382
Reserves	**178,856**	182,074
Total equity	**181,238**	184,456

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 21 March 2017 and signed on its behalf by:

Li Tie *Executive Director*	**Huang Erwei** *Executive Director*

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

33. Reserves of the Company

The movement in the reserves of the Company is as follows:

	Share premium RMB'000	Special reserve RMB'000	Accumulated losses RMB'000	Translation reserve RMB'000	Total RMB'000
Balance at 1 January 2015	64,200	191,120	(27,359)	(627)	227,334
Loss for the year	–	–	(5,940)	–	(5,940)
Other comprehensive expense for the year	–	–	–	(320)	(320)
Total comprehensive expense for the year	–	–	(5,940)	(320)	(6,260)
Distribution of special dividend	(39,000)	–	–	–	(39,000)
Balance at 31 December 2015	**25,200**	**191,120**	**(33,299)**	**(947)**	**182,074**
Loss for the year	**–**	**–**	**(4,318)**	**–**	**(4,318)**
Other comprehensive income for the year	**–**	**–**	**–**	**1,100**	**1,100**
Total comprehensive expense for the year	**–**	**–**	**(4,318)**	**1,100**	**(3,218)**
Balance at 31 December 2016	**25,200**	**191,120**	**(37,617)**	**153**	**178,856**

Five-Year Financial Summary

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Continuing operations					
Revenue	**516,074**	495,089	472,861	495,773	438,533
Cost of sales	**(412,760)**	(395,115)	(336,607)	(337,851)	(313,494)
Gross profit	**103,314**	99,974	136,254	157,922	125,039
Other income	**2,945**	8,067	6,938	8,412	6,971
Other gains and losses	**(1,094)**	1,964	(1,605)	(2,578)	(1,173)
Selling and distribution expenses	**(31,191)**	(29,496)	(30,939)	(31,502)	(19,356)
Administrative and other operating expenses	**(55,033)**	(57,519)	(54,172)	(48,113)	(37,246)
Listing expenses	**–**	–	(19,596)	(5,819)	–
Finance costs	**(9,791)**	(13,981)	(14,856)	(22,545)	(22,878)
Profit before tax	**9,150**	9,009	22,024	55,777	51,357
Income tax expense	**(4,516)**	(4,944)	(9,130)	(8,297)	(8,450)
Profit for the year from continuing operations	**4,634**	4,065	12,894	47,480	42,907
Discontinued operation					
(Loss)/profit for the year from discontinued operation	**–**	–	–	(3,816)	4,802
Profit for the year	**4,634**	4,065	12,894	43,664	47,709
Other comprehensive income/(expense) for the year, net of income tax					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	**112**	(575)	216	–	–
Total comprehensive income for the year	**4,746**	3,490	13,110	43,664	47,709
Profit for the year attributable to:					
Owners of the Company	**2,556**	2507	7,321	35,427	38,901
Non-controlling interests	**2,078**	1,558	5,573	8,237	8,808
	4,634	4,065	12,894	43,664	47,709
Total comprehensive income for the year attributable to:					
Owners of the Company	**2,668**	1,932	7,537	35,427	38,901
Non-controlling interests	**2,078**	1,558	5,573	8,237	8,808
	4,746	3,490	13,110	43,664	47,709
Assets and liabilities					
Non-current assets	**190,260**	207,258	194,142	203,117	233,142
Current assets	**498,664**	525,237	467,385	365,633	619,916
Current liabilities	**454,291**	502,755	397,062	443,879	621,185
Non-current liabilities	**4,043**	3,896	3,111	61,866	3,407
Non-controlling interests	**38,764**	36,686	35,128	29,555	44,565
Total equity	**230,590**	225,844	261,354	63,005	228,466