# TOURISM INTERNATIONAL HOLDINGS LIMITED

# 旅業國際控股有限公司

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

# ANNUAL REPORT 2017

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# FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of Tourism International 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 2017 (the "Year") together with the comparative figures for the corresponding period in 2016.

- Revenue for the year ended 31 December 2017 increased by approximately 2.7% or RMB13.9 million to approximately RMB530.0 million as compared with the same period in 2016.
- Gross profit for the year ended 31 December 2017 increased by approximately 13.4% or RMB13.8 million to approximately RMB117.2 million as compared with the same period in 2016.
- Gross profit margin for the year ended 31 December 2017 increased by approximately 2.1% from approximately 20.0% to approximately 22.1% as compared with the same period in 2016.
- Profit attributable to owners of the Company for the year ended 31 December 2017 decreased by approximately 9.6% or RMB0.2 million to approximately RMB2.3 million as compared with the same period in 2016.
- Average trade and note receivables turnover days decreased from approximately 162 days for the year ended 31 December 2016 to approximately 146 days for the year ended 31 December 2017.
- Average trade and note payables turnover days decreased from approximately 274 days for the year ended 31 December 2016 to approximately 245 days for the year ended 31 December 2017.
- Average inventory turnover days increased from approximately 97 days for the year ended 31 December 2016 to approximately 114 days for the year ended 31 December 2017.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (for the year ended 31 December 2016: 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 (365 days for the year ended 31 December 2017 (for the year ended 31 December 2016: 366 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 (365 days for the year ended 31 December 2017 (for the year ended 31 December 2016: 366 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 (365 days for the year ended 31 December 2017 (for the year ended 31 December 2016: 366 days)).

# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. Li Tie *(Chairman) (appointed on 24 February 2017)*
Mr. Liu Daoqi *(Chief Executive Officer)*
*(appointed on 24 February 2017)*
Mr. Huang Erwei *(appointed on 24 February 2017)*

### Non-executive Director

Mr. Yang Yoong An *(redesignated on 24 February 2017)*

### Independent Non-executive Directors

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

## Company Secretary

Mr. Wu Hung Wai *(HKICPA)*

## Registered Office

P.O. Box 10008, Willow House, Cricket Square
Grand Cayman, KY1-1001
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 *(appointed on 24 February 2017)*
Mr. Wang Ping

## Nomination Committee

Mr. Li Tie *(Chairman) (appointed on 24 February 2017)*
Mr. Zeng Shiquan
Mr. Gong Jinjun

## Corporate Website Address

www.tourisminternational.com.hk

## Authorised Representatives

Mr. Huang Erwei *(appointed on 17 March 2017)*
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

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House, Cricket Square
Grand Cayman, KY1–1001
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

Sidley Austin
39/F., Two International Finance Centre
Central, Hong Kong

## Auditor

PricewaterhouseCoopers
*Certified Public Accountants*
22/F., Prince's Building
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 2017.

With the popularization of e-cigarettes and implementation of stronger cigarette control measures in China, the tobacco industry is facing certain challenges. Leveraging its rich experience in the cigarette packaging industry, the Group has benefited from stepping up internal control and enhancing technology and development capabilities in order to reinforce its market position as a leading paper cigarette packaging printer.

For the year ended 31 December 2017, the Group's revenue amounted to approximately RMB530.0 million, representing an increase of approximately 2.7% compared to the same period in 2016. Gross profit was approximately RMB117.2 million, representing a year-on-year increase of approximately 13.4%. The gross profit margin was approximately 22.1% compared to 20.0% in 2016. Profit attributable to owners of the Company amounted to approximately RMB2.3 million, representing a decrease of approximately 9.6%.

During the year, the Group is committed to exploring market opportunities, actively expanding its local distribution network and exploring high-growth investment opportunities. In order to consolidate the dominant position, the Group extended its footprints to the Northern China market, while making greater promotion and marketing endeavors in Jiangsu, Guangdong and Guangxi markets. It is determined to grasp the opportunities arising from the growing demand and gain market share.

Despite the industry's challenges, cigarette sales rallied in 2017. With the increasing income and consumption power of Chinese people, demand for better design and technology of cigarette packages will continue to rise, which in turn creates opportunities to the Group, a company with advanced technology and product development capabilities. In future, we will continue to focus on the development of cigarette package printing business and achieve greater market penetration. Meanwhile, we will devote efforts in the development of asset management and tourism related businesses and seize domestic business opportunities.

In early 2018, the Group changed its name from "Jia Yao Holdings Limited" to "Tourism International Holdings Limited" to help establish a new corporate image with the aim of exploring new opportunities for further diversification of the business. Experience and Capabilities of the controlling shareholder, China Civil Aviation (Cayman) Investment Group Limited, provide favorable conditions for the Group to develop into new business area in the future.

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, 27 March 2018

## Market Review

The global tobacco industry is suffering from cyclical fluctuations brought by rising tobacco tax and tobacco control, as well as other factors. However, Chinese cigarette sales volume rebounded to 47.4 million boxes in 2017, which increases by approximately 0.8% year-on-year. Such increase was mainly attributable to the trend whereby the growth of Chinese consumers' income outpaced the growth of cigarette prices, thus increasing mainland consumers' ability to afford cigarettes. The demand for quality paper cigarette package remains huge, especially for customised packaging and labels. Moreover, the Chinese Government advocates the consumption of middle to high-end cigarettes, encouraging penetration of those products into Southeast Asia and other countries, thereby boosting the growth of Chinese cigarette industry. The relevant policies are expected to have a positive impact on the cigarette market. In light of this, there is still room for further development of cigarette packaging in the tobacco industry, in particular the high-end market.

In addition, the "The Provisions of the People's Republic of China on the Domestic Tobacco Packaging Labels" promulgated by the State Tobacco Monopoly Bureau and General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in October 2016 have tightened the requirements of warning statement on cigarette boxes. Cigarette manufacturers in all provinces are expected to gradually replace their cigarette packages. It is believed that the demand for higher quality products in terms of technology and product design will surge, reinforcing the competitiveness of the Group.

## 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's success in the cigarette packages industry is attributable to a solid and lasting business relationship with customers. Stability keeps the business synchronized with the market. As at the date of this annual 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 in the PRC. 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. In addition, the Group stepped up its marketing efforts in Jiangsu, Guangdong, Guangxi and other markets during the year, and recorded steady growth in the volume of orders.

### 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.

* *For identification purpose only*

### 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, the Group has adopted an improved 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 material in order to set the costs target, and a mid-year meeting will also be held to adjust the annual purchasing strategy based on the market conditions.

## Financial Review

### Revenue

For the year ended 31 December 2017, the revenue of the Group was approximately RMB530.0 million, representing an increase of approximately 2.7% over the same period in 2016, among which revenue from paper cigarette packages segment and social product paper packages segment accounted for approximately 95.1% and 4.9%, respectively. The increase in sales was primarily attributable to the increase in sales order mainly in the market of Henan and Yunnan due to various newly launched series of sub-brand of the cigarette brand "Huang Jin Ye (黃金葉)" and "Yu Xi (玉溪)" during the year.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2017:

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2017** | 2016 | Change (%) |
| | **RMB'000** | RMB'000 | (approximate) |
| Paper cigarette packages segment | **504,054** | 478,240 | +5.4% |
| Social product paper packages segment | **25,946** | 37,834 | –31.4% |

### Gross Profit

The Group's gross profit increased by approximately 13.4% from approximately RMB103.3 million for the year ended 31 December 2016 to approximately RMB117.2 million for the year ended 31 December 2017. The Group's gross profit margin increased by approximately 2.1% from approximately 20.0% to approximately 22.1% as compared with the same period in 2016. The increase in gross profit margin was primarily due to the increase in sale orders of high-end paper cigarette packages with higher gross profit margin mainly from Yunnan market during the year.

### Distribution Costs

For the year ended 31 December 2017, distribution costs 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 distribution costs increased by approximately 6.8% from approximately RMB31.2 million for the year ended 31 December 2016 to approximately RMB33.3 million for the year ended 31 December 2017. The increase in distribution costs was mainly due to the increase in transportation cost during the year.

### Administrative Expenses

For the year ended 31 December 2017, administrative 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 increased by approximately 9.2% from approximately RMB55.1 million for the year ended 31 December 2016 to approximately RMB60.2 million for the year ended 31 December 2017. The increase in administrative expenses was mainly due to the increase in expenses arising on issuance of convertible notes and staff costs during the year.

### Other Income

For the year ended 31 December 2017, other income mainly consists of non-recurring government grant and sundry income. The Group's other income decreased by approximately RMB1.2 million to approximately RMB0.34 million during the year.

### Other Losses

For the year ended 31 December 2017, other losses mainly consisted impairment losses on assets, change in fair value of financial liability at fair value through profit or loss and losses on disposal of property, plant and equipment. The Group's other losses increased by approximately RMB10.7 million to approximately RMB11.8 million during the year. The increase in other losses was mainly due to the recognition of fair value loss on convertible notes of approximately RMB7.0 million during the year.

### Finance Costs (net)

For the year ended 31 December 2017, net finance costs primarily consist of interest income on bank deposits, 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 20.1% from approximately RMB8.4 million for the year ended 31 December 2016 to approximately RMB6.7 million for the year ended 31 December 2017. The decrease in net finance costs was mainly due to the decrease in finance costs arising on early redemption of note receivables by approximately RMB1.7 million.

### Income Tax Expense

The Group recorded an income tax credit of approximately RMB0.7 million for the year ended 31 December 2017 as compared to the income tax expense of approximately RMB4.5 million for the year ended 31 December 2016 mainly due to the reversal of deferred tax liabilities of PRC subsidiaries as a result of the change in the dividend policy during the year.

### Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company decreased by approximately 9.6% from approximately RMB2.6 million for the year ended 31 December 2016 to approximately RMB2.3 million for the year ended 31 December 2017.

### Trade and Other Receivables

Trade and other receivables decreased by approximately 21.5% from approximately RMB276.3 million as at 31 December 2016 to approximately RMB217.0 million as at 31 December 2017. The decrease was mainly attributable to the net effect of: (i) decrease of trade receivables from approximately RMB206.2 million as at 31 December 2016 to approximately RMB159.1 million as at 31 December 2017; (ii) decrease of note receivables from approximately RMB34.7 million as at 31 December 2016 to approximately RMB25.3 million as at 31 December 2017; (iii) decrease of payments in advance from approximately RMB14.2 million as at 31 December 2016 to approximately RMB3.6 million as at 31 December 2017; and (iv) increase of deposits paid from approximately RMB9.4 million as at 31 December 2016 to approximately RMB15.2 million as at 31 December 2017.

### Trade and Other Payables

Trade and other payables decreased by approximately 2.3% from approximately RMB303.4 million as at 31 December 2016 to approximately RMB296.5 million as at 31 December 2017.

## Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB177.5 million as at 31 December 2017, compared with net current assets of approximately RMB43.8 million as at 31 December 2016. The Group maintained a healthy liquidity position during the year ended 31 December 2017. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2017, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB193.9 million, compared with approximately RMB58.2 million as at 31 December 2016.

### Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB247.0 million as at 31 December 2017 (as at 31 December 2016: approximately RMB150.0 million). The increase of interest-bearing borrowings is mainly due to issue of convertible notes of HK$120.0 million, equivalent to approximately RMB107.0 million during the year. The Group's interest-bearing borrowings were mainly denominated in Renminbi and Hong Kong dollars as at 31 December 2016 and 2017. The Group's interest-bearing borrowings of approximately RMB140.0 million and RMB107.0 million were repayable within 1 year and in the second to fifth years inclusive, respectively. The gearing ratio decreased from approximately 28% as at 31 December 2016 to approximately 18% as at 31 December 2017. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

| | As at 31 December | |
|---|---|---|
| | **2017** | 2016 |
| | **RMB'000** | RMB'000 |
| Total borrowings | **246,952** | 150,000 |
| Less: cash and cash equivalents | **(193,938)** | (58,199) |
| Net debt | **53,014** | 91,801 |
| Total equity | **234,692** | 230,590 |
| Total capital | **287,706** | 322,391 |
| Gearing ratio (%) | **18%** | 28% |

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 2017, the Group's total capital expenditure amounted to approximately RMB7.5 million (2016: approximately RMB4.1 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):

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Land use rights | **20,569** | 21,179 |
| Plant and equipment | **102,693** | 132,026 |
| Trade receivables | **114,623** | 139,795 |
| Restricted cash | **58,145** | 54,013 |
| | **296,030** | 347,013 |

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

There are no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group for the year ended 31 December 2017 (2016: nil).

### Contingent Liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities (as at 31 December 2016: nil).

### 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 2017.

## Human Resources and Remuneration

As at 31 December 2017, the Group employed 788 employees (as compared with 850 employees as at 31 December 2016) with total staff cost of approximately RMB88.4 million incurred for the year ended 31 December 2017 (as compared with approximately RMB88.8 million for the year ended 31 December 2016). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

## Placing of Convertible Notes

On 15 September 2017, the Company entered into the placing agreement (the "Placing Agreement") with First Shanghai Securities Limited (the "Placing Agent") pursuant to which the Company conditionally agreed to issue, and the Placing Agent conditionally agreed to procure placees, on a best efforts basis, to subscribe for convertible notes with the principal amount of up to HK$120,000,000 (the "Convertible Notes") at a consideration equal to the aggregate principal amount of the Convertible Notes, and at the initial conversion price of HK$2.00 to HK$2.10 per Share (the "Placing"). The initial conversion price was subsequently agreed by the Company and the Placing Agent to be HK$2.025 per Share pursuant to the Placing Agreement (the "Conversion Price").

The Conversion Shares shall be allotted and issued under the general mandate granted by the shareholders to the directors of the Company at the annual general meeting held on 9 June 2017.

The noteholder will have the right to convert the whole or part of the principal amount of the Convertible Notes into shares of the Company at the Conversion Price at any time from the date following 180 days or half year after of issue of Convertible Notes and up to the fourteenth (14th) day prior to and exclusive of the Maturity Date, and shall bear interest from the date of issue of the Convertible Notes at 4.80% per annum and is payable annually.

The Convertible Notes shall mature on the date falling 24 months from the date of the issue of the Convertible Notes (the "Maturity Date"). Any Convertible Notes which remains outstanding on the Maturity Date shall be redeemed by the Company at the then outstanding principal amount together with any interest accrued but has not been paid.

Completion of the placing of Convertible Bonds took place on 18 October 2017 pursuant to which the Convertible Notes in the principal amount of HK$120,000,000 were issued to not less than six placees. The net proceeds from the Placing, after the deduction of related expenses, were approximately HK$117.0 million. The net proceeds from the Placing were intended to be used as to approximately not more than 20% for general working capital of the Group, and as to approximately not less than 80% for the Group's development purposes in order to expand into new areas including asset management and hospitality related businesses. Further details of the placing of the Convertible Notes are as set out in the announcements of the Company dated 17 September 2017, 26 September 2017, 4 October 2017 and 18 October 2017.

As at the date of this annual report, the net proceeds from the placing of the Convertible Notes of approximately HK$1.6 million had been applied by the Group as general working capital of the Group, which is consistent with the intended use of proceeds as indicated. The remaining proceeds in the amount of approximately HK$115.4 million remain unutilised as at the date of this annual report.

## Adequacy of Public Float

Immediately after the close of the mandatory unconditional cash offer made by First Shanghai Securities Limited for and on behalf of China Civil Aviation (Cayman) Investment Group Limited on 17 March 2017, the public held 74,998,000 Shares, representing approximately 24.999% of the entire issued share capital of the Company. As such, the Company could not satisfy the minimum public float requirement of 25% as set out under Rules 8.08(1)(a) and 13.32 of the Listing Rules.

The Company therefore made an application to the Stock Exchange for a temporary waiver from strict compliance with Rules 8.08(1)(a) and 13.32 of the Listing Rules for a period commencing from 17 March 2017 to 22 March 2017 (the "Waiver") and the Waiver was granted by the Stock Exchange on 17 March 2017.

The Company was informed by Spearhead Leader Limited that it had disposed 2,000 Shares, representing approximately 0.001% of the total issued share capital of the Company to independent third parties in the market on 20 March 2017. Following completion of the disposal, 75,000,000 shares of the Company, representing approximately 25% of the total issued share capital of the Company, were held by the public and minimum public float of the Company of 25% of the total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules has been restored. Further details of the restoration of public float is set out in the announcement of the Company dated 22 March 2017.

Same for the above period, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Group maintained adequate public float throughout the year ended 31 December 2017.

## Future Outlook

According to the National Bureau of Statistics of the People's Republic of China, China's gross domestic product in 2017 was RMB82 trillion, an increase of approximately 6.9% over the previous year. The growth started to accelerate after seven years, reflecting the growing economic vibrancy. China's economy is expected to maintain a steady growth, as the economic restructuring is accelerating. Consumption became the main driver of economic growth, thus contributing to the increase in demand for high-end cigarettes. The Group is optimistic about the future of the tobacco industry.

Riding on the Group's considerable results in Jiangsu, Guangdong and Guangxi markets, and the successful expansion into Northern China, the Group will continue to expend marketing efforts, increase market share, whilst pushing through product upgrades and boosting sales of high-margin products.

In the future, the cigarette industry will experience the process of branding and differentiation, and consumer requirements for cigarette labels and cigarette packaging will also become higher gradually. The demand for pre-printed cigarette design, environmental protection technology, anti-counterfeiting technology and multi-technology combination printing technology is expected to increase. We believe the Group can exert its competitive edge in design, printing and sales and consolidate its leading position in the tobacco industry.

In 2018, we will continue to focus on paper cigarette packages business, and strive to provide high-quality paper cigarette packages, while strictly controlling production and operating costs and enhancing profitability. The management will continue to prudently explore potential investment opportunities, consolidate market share, expand products and services, explore more value-added opportunities, and strive to enhance the Group's long-term return to shareholders.

# BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

## Executive Directors

**Mr. Li Tie (李鐵)**, aged 41, was appointed as our executive Director on 24 February 2017, the Chairman of the Board and the Chairman of the nomination committee on 17 March 2017. Mr. Li is primarily responsible for overall management and formulation of business strategy of our Group.

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 Master's degree in Commerce and Administration from the Tsinghua 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 39, was appointed as our executive Director on 24 February 2017, the chief executive officer of our Company and a member of the remuneration committee on 17 March 2017. Mr. Liu is primarily responsible for overall management and formulation of business strategy of our Group.

Mr. Liu is the vice chief investment officer of HNA Tourism Group Co., Ltd. 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 40, was appointed as our executive Director on 24 February 2017. Mr. Huang is primarily responsible for overall management and formulation of business strategy of our Group.

Mr. Huang is the general manager of HNA Group Finance Co., Ltd. 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.

## Non-executive Director

**Mr. Yang Yoong An (楊詠安)** (formerly known as **Yang An (楊安)**), aged 55, 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 is primarily responsible for overseeing the general corporate, financial and compliance affairs of the Group.

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

With the acquisition of the equity interests in Hubei Golden Three Gorges in 2001, Mr. Yang developed the business of production of cigarette packages in the PRC. In 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").

* *For identification purpose only*

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 29,398,000 shares representing approximately 9.8% of the issued share capital of the Company.

## Independent non-executive Directors

**Mr. Gong Jinjun (龔進軍)**, aged 61, was appointed as an independent non-executive Director on 5 June 2014, a member of the audit committee on 17 March 2017, the chairman of the remuneration committee and a member of the nomination committee on 6 June 2014. Mr. Gong is primarily responsible for overseeing the management independently.

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

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

**Mr. Zeng Shiquan (曾石泉)**, aged 70, 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. Mr. Zeng 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.

From November 2013 to July 2017, Mr. Zeng has been appointed as an independent director of Shenzhen Kedali Industry Co., Ltd.(深圳市科達利實業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Shenzhen Exchange stock code: 002850). From June 2013 to May 2015, Mr. Zeng was 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) (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 (Stock code: 01250). From January 2016 to February 2016, Mr. Zeng was appointed as an independent non-executive director of Aurum Pacific (China) Group Limited(奧栢中國集團有限公司))whose shares are listed on GEM of the Stock Exchange (Stock code: 08148).

* *For identification purpose only*

**Mr. Wang Ping (王平)**, aged 47, 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. Mr. Wang 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.

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 May 2017; (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) from December 2013 to September 2017; (c) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) from March 2016 to August 2017; 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; and (e) Yunan Chuangxin New Material Co,. Ltd. (雲南創新新材料股份有限公司) (Shenzhen Exchange stock code: 002812) since April 2017. Mr. Wang also has been appointed as 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) since May 2017; and (b) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) since August 2017.

## Senior Management

**Ms. Song Chun (宋春)**, aged 49, 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. Li Shaoan (李少安)**, aged 45, 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 36, 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 10 years of experience in auditing, accounting and financial reporting.

* *For identification purpose only*

## 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 2017.

## 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 2017.

## 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) *(note 1)* | 41 | Chairman and executive Director | 24 February 2017 | N/A | Serves on the nomination committee; overall management and formulation of business strategy of our Group | N/A |
| Mr. Liu Daoqi (劉道騏) *(note 1)* | 39 | Chief executive officer and executive Director | 24 February 2017 | N/A | Serves on the remuneration committee; overall management and formulation of business strategy of our Group | N/A |
| Mr. Huang Erwei (黃爾威) *(note 1)* | 40 | Executive Director | 24 February 2017 | N/A | Overall management and formulation of business strategy of our Group | N/A |

| Name | Age | Position | Date of appointment as Director | Date of resignation/ redesignation | Roles and responsibilities | Relationship with the other Directors |
|---|---|---|---|---|---|---|
| *Non-executive Director* | | | | | | |
| Mr. Yang Yoong An (楊詠安) *(note 2)* | 55 | 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 | N/A |
| *Independent non-executive Directors* | | | | | | |
| Mr. Gong Jinjun (龔進軍) | 61 | 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) | 70 | 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) | 47 | Independent non-executive Director | 5 June 2014 | N/A | Serves on the audit and remuneration committees; responsible for overseeing the management independently | N/A |

*Notes:*

1. Mr. Li Tie, Mr. Liu Daoqi nd Mr. Huang Erwei was appointed as Directors of the Company with effect from 24 February 2017.

2. Mr. Yang Yoong An resigned as the chairman and executive Director of the Company, and redesignated to a non-executive Director with effect from 17 March 2017.

The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this annual report. There are no 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. Zeng Shiquan, Mr. Liu Daoqi and Mr. Huang Erwei will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 18 May 2018, being eligible, offer themselves for re-election pursuant to the articles of association of the Company (the "Articles of Association").

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.

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. Li Tie (appointed on 24 February 2017) | A & B |
| Mr. Liu Daoqi (appointed on 24 February 2017) | A & B |
| Mr. Huang Erwei (appointed on 24 February 2017) | A & B |
| Mr. Yang Yoong An | A & B |
| Mr. Zeng Shiquan | A & B |
| Mr. Gong Jinjun | A & B |
| Mr. Wang Ping | A & B |
| Mr. Feng Bin (resigned on 17 March 2017) | A & B |
| Mr. Yang Fan (resigned on 17 March 2017) | 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.

## Board Meetings

13 Board meetings were held during the year ended 31 December 2017. 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.

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

| | Attendance/Board meetings held during the year ended 31 December 2017 |
|---|---|
| Mr. Li Tie (appointed on 24 February 2017) | 9/9 |
| Mr. Liu Daoqi (appointed on 24 February 2017) | 9/9 |
| Mr. Huang Erwei (appointed on 24 February 2017) | 9/9 |
| Mr. Yang Yoong An | 13/13 |
| Mr. Zeng Shiquan | 13/13 |
| Mr. Gong Jinjun | 13/13 |
| Mr. Wang Ping | 13/13 |
| Mr. Feng Bin (resigned on 17 March 2017) | 5/5 |
| Mr. Yang Fan (resigned on 17 March 2017) | 5/5 |

One general meeting, being the annual general meeting for the year ended 31 December 2016, was held during the year ended 31 December 2017. The members and attendance of the general meeting are as follows:

| | Attendance/General meeting held during the year ended 31 December 2017 |
|---|---|
| Mr. Li Tie (appointed on 24 February 2017) | 0/1 |
| Mr. Liu Daoqi (appointed on 24 February 2017) | 0/1 |
| Mr. Huang Erwei (appointed on 24 February 2017) | 1/1 |
| Mr. Yang Yoong An | 0/1 |
| Mr. Zeng Shiquan | 1/1 |
| Mr. Gong Jinjun | 1/1 |
| Mr. Wang Ping | 1/1 |
| Mr. Feng Bin (resigned on 17 March 2017) | 0/0 |
| Mr. Yang Fan (resigned on 17 March 2017) | 0/0 |

The executive Directors, Mr. Li Tie and Mr. Liu Daoqi and the non-executive Director, Mr. Yang Yoong An were unable to attend the annual general meeting held in 2017 due to prior or unexpected business engagements.

The forthcoming annual general meeting will be held on 18 May 2018.

## 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 9 June 2017 and ending on the conclusion of the 2017 annual general meeting of the Company to be held in 2018. 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 which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 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 2017, Mr. Li Tie 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. Liu Daoqi, 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 and note 31 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. As at the date of this annual report, the Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Gong Jinjun (who replaced Mr. Yang Fan with effect from 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 2017, the Audit Committee mainly performed the following duties:

— reviewed the Group's audited final results for the year ended 31 December 2016, unaudited interim results for the six months ended 30 June 2017, 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.

— reviewed the appropriateness and effectiveness of the risk management and internal control systems of the Group and made recommendations to the Board on the improvement of internal control, credit control and risk management of the Group.

During the year ended 31 December 2017, 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. Gong Jinjun (appointed as a member of the Audit Committee on 17 March 2017) | 2/2 |
| Mr. Zeng Shiquan | 2/2 |
| Mr. Yang Fan (resigned on 17 March 2017) | 0/0 |

There had been no disagreement between the Board and the Audit Committee during the year ended 31 December 2017.

## 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. As at the date of this annual report, the Remuneration Committee consists of two independent non-executive Directors, namely Mr. Gong Jinjun (as Chairman) and Mr. Wang Ping, and one executive Director, namely Mr. Liu Daoqi (who replaced Mr. Feng Bin with effect from 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 2017, 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. Liu Daoqi (appointed as a member of the Remuneration Committee on 17 March 2017) | 1/1 |
| Mr. Feng Bin (resigned on 17 March 2017) | 0/0 |

During the year ended 31 December 2017, the Remuneration Committee mainly performed works including reviewing and making recommendation to the Board regarding of the Directors' remuneration for the year ending 31 December 2017 and the terms of service contracts for newly appointed directors.

There had been no disagreement between the Board and the Remuneration Committee during the year ended 31 December 2017.

## 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. As at the date of this annual report, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Zeng Shiquan and Mr. Gong Jinjun, and one executive Director, Mr. Li Tie (as Chairman) (who replace Mr. Yang Yoong An with effect from 17 March 2017). 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.

During the year ended 31 December 2017, 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. Li Tie (appointed as chairman of the Nomination Committee on 17 March 2017) | 1/1 |
| Mr. Zeng Shiquan | 1/1 |
| Mr. Gong Jinjun | 1/1 |
| Mr. Yang Yoong An (resigned as chairmen of the Nomination Committee on 17 March 2017) | 0/0 |

There had been no disagreement between the Board and the Nomination Committee during the year ended 31 December 2017. During the year ended 31 December 2017, the Nomination Committee mainly performed works including:

— identified suitable candidates for directorships and made recommendations to the Board;

— assessed the independence of independent non-executive Directors;

— made recommendations to the Board on the appointment or re-appointment of Directors; and

— reviewed and assessed the implementation of the diversity policy of the Company.

## 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 auditor's report contained in this annual report.

## External Auditor's Remuneration

The Company engaged PricewaterhouseCoopers as its external auditor for the year ended 31 December 2017. 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 PricewaterhouseCoopers 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 PricewaterhouseCoopers during the year are as follows:

| | **RMB** |
|---|---|
| Audit services | 800,000 |
| Non-audit services (Interim review) | 250,000 |
| | 1,050,000 |

## 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 2017.

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 3 to the consolidated financial statements in this annual report.

## 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 2017.

## Significant Changes in Constitutional Documents

There had been no significant changes in the constitutional documents of the Company during the year ended 31 December 2017.

## 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.

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 2017.

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

**As at 31 December 2017**

| | 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** |
| **788** | **53** | **263** | **304** | **168** | **788** | **727** | **61** | **788** |

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 |

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.

## 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 2017 and the Group was in compliance with the relevant laws and regulations that have a significant impact on the Company to a material respect.

## 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 2017, 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 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 hazardous wastes 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. During the year ended 31 December 2017, the Group has complied with the relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes that have a significant impact on the Company in all material respects.

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 the Group 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 RMB1,235,000 and RMB872,000 for the years ended 31 December 2017 and 2016 respectively.

| Performance indicator of emissions | | 2017 data |
|---|---|---|
| Emission | Total carbon dioxide emission ($CO_2$) (ton) | 18.6 |
| | Total nitric oxides NOx emission (ton) | 0.67 |
| | Total greenhouse gases emission per million RMB of goods sold (ton) | 0.03 |
| Hazardous waste | Solid and liquid hazardous from production and water treatment (ton) | 83 |
| | Total hazardous waste produced per million RMB of goods sold (ton) | 0.13 |
| Non-hazardous waste | Non-hazardous waste (ton) (office waste, paper, plastic not suitable for recycle, household waste from canteen and dormitories) | 18 |
| | Total non-hazardous waste produced per million RMB of goods sold (ton) | 0.0029 |

## 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.

| Performance indicator of use of emissions | | 2017 data |
|---|---|---|
| Energy | Fuel and Gas (Mwh) | 961,104 |
| | Electricity (Mwh) | 13,230.409 |
| | Energy consumed per million RMB of goods sold (Mwh) | 1,571.109 |
| Water | In $M_3$ (Consumption by production, canteen and dormitory) | 97,629 |
| | Water consumed per million RMB of goods sold ($M_3$) | 157.43 |
| Paper | Total paper consumed by production (ton) | 18,012.67 |
| Packaging material | Packaging materials are mainly nylon tape and PP shrinkage film (ton) | 78 |
| | Packaging materials consumed per million RMB of goods sold (ton) | 0.126 |

## 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.

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.

During the year ended 31 December 2017, the operations of the Group have complied with the relevant laws and regulations regarding health and safety of products and services, advertising, labelling and privacy matters in all material respects.

## 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 2017. During the year ended 31 December 2017, the Group has complied with the relevant laws and regulations that have a significant impact on the Company relating to bribery, extortion, fraud and money laundering in all material respects.

## 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.

The Directors are pleased to present to the Shareholders this annual report and the audited consolidated financial statements for the year ended 31 December 2017 (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 11 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 comprehensive income on page 52 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 108 of this annual report.

## Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (for the year ended 31 December 2016: nil).

## Closure of Register of Members

The annual general meeting is scheduled to be held on Friday, 18 May 2018.

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, 15 May 2018 to Friday, 18 May 2018, 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, 14 May 2018.

## 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 | 24.8% | |
| Five largest customers in aggregate | 65.3% | |
| The largest supplier | | 14.2% |
| Five largest suppliers in aggregate | | 43.2% |

None of the Directors, their close associates or any Shareholders to the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's shares) had any interests in the Group's five largest 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 14 to the consolidated financial statements in this annual report.

## Bank Borrowings

Details of bank borrowings of the Group as at 31 December 2017 are set out in note 24 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 108. 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 19 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 27 June 2014. 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.

## Reserves

Movements in the reserves are set out in note 20 and note 32 to the consolidated financial statements 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.

PricewaterhouseCoopers, 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. PricewaterhouseCoopers 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 ten Provincial Tobacco Industrial Companies and six 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 Hong Zhicai Packaging Printing Company Limited ("Wuhan Hong Zhicai");

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

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

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

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

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

(15) Hongta Tobacco (Group) Co. Ltd. ("Hongta Group"); and

(16) China Tobacco Chongqing Industrial Co., Ltd. ("China Tobacco Chongqing").

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, 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 2017 as below:

| | | Aggregate amount of the transaction during the year ended 31 December 2017 RMB (approximately) | Relevant annual cap for the year ended 31 December 2017 RMB (approximately) | Date of transaction/ announcement | Terms of the agreement(s) for the transaction |
|---|---|---|---|---|---|
| (1) | Sale of product from the Group to Hongta Group | 160,085 | 19,580,000 | 7 January 2016 | 7 January 2016 to 31 December 2017 |
| (2) | Sale of product from the Group to Xiamen Tobacco | 3,591,472 | 11,160,000 | 7 September 2016 | 7 September 2016 to 30 June 2017 |
| (3) | Sale of product from the Group to China Tobacco Hunan | 1,056,144 | 28,522,000 | 31 October 2016 | 31 October 2016 to 31 December 2018 |
| (4) | Sale of product from the Group to China Tobacco Hunan | 3,652,347 | 8,345,000 | 5 December 2016 | 5 December 2016 to 31 December 2018 |
| (5) | Sale of product from the Group to China Tobacco Sichuan | 18,884,756 | 34,760,000 | 9 January 2017 | 9 January 2017 to 31December 2018 |
| (6) | Sale of product from the Group to China Tobacco Shandong | 1,701,002 | 2,890,000 | 9 January 2017 | 9 January 2017 to 22 December 2018 |

| | | Aggregate amount of the transaction during the year ended 31 December 2017 RMB (approximately) | Relevant annual cap for the year ended 31 December 2017 RMB (approximately) | Date of transaction/ announcement | Terms of the agreement(s) for the transaction |
|---|---|---|---|---|---|
| (7) | Sale of product from the Group to China Tobacco Shaanxi | 31,381,016 | 35,750,000 | 9 January 2017 | 9 January 2017 to 31 December 2017 |
| (8) | Sale of product from the Group to Hainan Hongta Cigarette | 13,145,424 | 20,470,000 | 9 January 2017 | 9 January 2017 to 31 December 2017 |
| (9) | Sale of product from the Group to China Tobacco Guizhou | 8,046,027 | 38,040,000 | 9 January 2017 and 27 March 2017 | 9 January 2017 to 31 December 2017 |
| (10) | Sale of product from the Group to China Tobacco Yunnan | 59,213,367 | 73,620,000 | 9 January 2017 | 9 January 2017 to 31 December 2017 |
| (11) | Sale of product from the Group to Heilongjiang Tobacco Industrial | 25,856,382 | 40,950,000 | 9 January 2017 | 9 January 2017 to 31 December 2017 |
| (12) | Sale of product from the Group to China Tobacco Henan | 88,968,940 | 104,640,000 | 17 January 2017 | 17 January 2017 to 31 December 2017 |
| (13) | Sale of product from the Group to Shenzhen Tobacco Industrial | 9,480,363 | 15,900,000 | 17 January 2017 | 17 January 2017 to 31 December 2017 |
| (14) | Sale of product from the Group to China Tobacco Hubei | 41,692,562 | 61,110,000 | 17 January 2017 | 17 January 2017 to 31 December 2017 |
| (15) | Sale of product from the Group to Inner Mongolia Kunming Cigarettes | 33,983,459 | 36,240,000 | 1 March 2017 | 1 March 2017 to 31 December 2017 |
| (16) | Sale of product from the Group to China Tobacco Hunan | 23,803,252 | 45,340,000 | 1 March 2017 | 1 March 2017 to 31 December 2017 |
| (17) | Sale of product from the Group to China Tobacco Yunnan | 65,316,194 | 114,010,000 | 1 March 2017 | 1 March 2017 to 31 December 2017 |
| (18) | Sale of product from the Group to Inner Mongolia Kunming Cigarettes | 59,913 | 1,400,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (19) | Sale of product from the Group to China Tobacco Henan | 3,499,547 | 21,080,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (20) | Sale of product from the Group to Hainan Hongta Cigarette | 6,316,137 | 24,240,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (21) | Sale of product from the Group to China Tobacco Hubei | 1,190,256 | 2,640,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (22) | Sale of product from the Group to China Tobacco Guizhou | 1,084,026 | 1,570,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (23) | Sale of product from the Group to China Tobacco Chongqing | – | 7,050,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (24) | Sale of product from the Group to China Tobacco Yunnan | 7,008,241 | 7,330,000 | 27 March 2017 | 27 March 2017 to 31 December 2017 |
| (25) | Sale of product from the Group to China Tobacco Sichuan | 2,125,522 | 15,000,000 | 26 June 2017 | 26 June 2017 to 31 December 2017 |

| | | Aggregate amount of the transaction during the year ended 31 December 2017 RMB (approximately) | Relevant annual cap for the year ended 31 December 2017 RMB (approximately) | Date of transaction/ announcement | Terms of the agreement(s) for the transaction |
|---|---|---|---|---|---|
| (26) | Sale of product from the Group to Shenzhen Tobacco Industrial | 12,845,304 | 26,500,000 | 26 June 2017 | 26 June 2017 to 31 December 2017 |
| (27) | Sale of product from the Group to China Tobacco Chongqing | 584,410 | 5,920,000 | 26 June 2017 | 26 June 2017 to 31 December 2017 |
| (28) | Sale of product from the Group to Xiamen Tobacco | 2,710,952 | 4,320,000 | 24 October 2017 | 25 July 2017 to 30 June 2018 |
| (29) | Sale of product from the Group to Wuhan Hong Zhicai | 5,083,859 | 7,898,800 | 24 October 2017 | 24 October 2017 to 31 December 2017 |
| (30) | Sale of product from the Group to China Tobacco Hubei | 82,865 | 20,160,000 | 24 October 2017 | 24 October 2017 to 31 December 2017 |
| (31) | Sale of product from the Group to China Tobacco Hunan | 7,678,172 | 20,300,000 | 24 October 2017 | 24 October 2017 to 31 December 2017 |
| (32) | Sale of product from the Group to Heilongjiang Tobacco Industrial | 12,264,941 | 49,898,500 | 24 October 2017 | 24 October 2017 to 31 December 2017 |
| (33) | Sale of product from the Group to Hainan Hongta Cigarette | 268,953 | 1,500,000 | 23 December 2016 | 23 December 2016 to 31 January 2018 |

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 2017:

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 1 March 2017 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 2017. 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 1 March 2017 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 RMB4,980,000 for the year ended 31 December 2017. 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 2017 is below:

| | | Aggregate amount of the transaction during the year ended 31 December 2017<br>RMB<br>(approximately) | Relevant annual cap for the year ended 31 December 2017<br>RMB<br>(approximately) | Date of announcement |
|---|---|---|---|---|
| (1) | Purchase of paper from Zhuhai Huafeng | 1,161,513 | 4,500,000 | 1 March 2017 |
| (2) | Purchase of paper from Hongta Ren Heng | 3,556,288 | 4,980,000 | 1 March 2017 |

*(C) Compensation of Key Management personnel*

The transactions under the compensation of key management personnel in note 30 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 30 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 2017. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year ended to 31 December 2017.

## Directors

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

### Executive Directors

Mr. Li Tie (appointed on 24 February 2017)
Mr. Liu Daoqi (appointed on 24 February 2017)
Mr. Huang Erwei (appointed on 24 February 2017)

### 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' 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 9 June 2017 and ending on the conclusion of the 2017 annual general meeting of the Company to be held in 2018. 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 12 to 15 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.

None of the Director waived his/her emoluments nor has agreed to waive his/her emoluments for the year ended 31 December 2017.

## Directors' Interests in Contracts

There was no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest (either directly or indirectly) subsisted as at 31 December 2017 or at any time during the year ended 31 December 2017.

## Controlling Shareholders' Interests in Contracts

Save as disclosed in this annual report, no transaction, arrangement or 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 2017.

## 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 2017.

## Auditors

PricewaterhouseCoopers were appointed as auditors of the Company to replace HLB Hodgson Impey Cheng Limited with effect from the conclusion of the annual general meeting of the Company held on 9 June 2017. PricewaterhouseCoopers with retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

## 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.

## Distributable Reserves

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2017 amounted to approximately RMB25.2 million (as at 31 December 2016: 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 2017, 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 (note 2) |
|---|---|---|---|
| Mr. Yang Yoong An ("Mr. Yang") | Interest of a controlled corporation (note 1) | 29,398,000 | 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 29,398,000 shares of the Company held by Spearhead Leader for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader.

2. Calculated on the basis of 300,000,000 shares of the Company in issue as at 31 December 2017.

### 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% |

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executives of the Company, or their respective associates, had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to the Directors, as at 31 December 2017, 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 (note 3) |
|---|---|---|---|
| Spearhead Leader | Beneficial owner | 29,398,000 | 9.80% |
| Ms. Cai Yaohui ("Ms. Cai") | Interest of spouse (note 1) | 29,398,000 | 9.80% |
| China Civil Aviation (Cayman) Investment Group Limited ("CCA") | Beneficial owner (note 2) | 195,602,000 | 65.20% |
| China Civil Aviation Investment Group Limited (中國民用航空投資集團有限公司) ("CCA Investment") | Interest of controlled corporations (note 2) | 195,602,000 | 65.20% |
| Hainan Province Cihang Foundation (海南省慈航公益基金會) ("Cihang Foundation") | Interest of controlled corporations (note 2) | 195,602,000 | 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) | 195,602,000 | 65.20% |
| HNA Aviation (Hong Kong) Holdings Co., Limited (海航航空(香港)控股有限公司) ("HNA Aviation HK") | Interest of controlled corporations (note 2) | 195,602,000 | 65.20% |
| HNA Group Co., Ltd (海航集團有限公司) ("HNA Group") | Interest of controlled corporations (note 2) | 195,602,000 | 65.20% |
| Sheng Tang Development (Yangpu) Company Limited (盛唐發展(洋浦)有限公司) ("ST Development") | Interest of controlled corporations (note 2) | 195,602,000 | 65.20% |
| 海航旅遊集團有限公司 ("HNA Tourism") | Interest of controlled corporations (note 2) | 195,602,000 | 65.20% |

| Name of shareholders | Capacity/Nature of interest | No. of ordinary shares held/ interested | Percentage of shareholding (note 3) |
|---|---|---|---|
| HNA Aviation Group Co., Ltd.* (海航航空集團有限公司) ("HNA Aviation") | Interest of controlled corporations (note 2) | 195,602,000 | 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 beneficially holds 195,602,000 ordinary Shares. Each of CCA Investment, Cihang Foundation, Hainan Traffic, HNA Group, ST Development, HNA Aviation, HNA Aviation HK and HNA Tourism is deemed, or taken to be interested in the Shares of the Company held by CCA for the purpose of the SFO and by reason of interests of controlled corporations.

3. Calculated on the basis of 300,000,000 shares of the Company in issue as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, 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.

## 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 as at the date of this annual report, 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. An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

* *For identification purpose only*

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 annual 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.

## 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 16 to 26 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 2017.

## 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 2017 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 11 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 2017 (2016: 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

PricewaterhouseCoopers have been appointed as auditors of the Company for the year ended 31 December 2017.

PricewaterhouseCoopers will retire at the forthcoming annual general meeting.

A resolution will be proposed to the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as auditors of the Company.

On behalf of the Board

**Li Tie**
*Chairman*
Hong Kong, 27 March 2018

**To the Shareholders of Tourism International Holdings Limited**
*(incorporated in the Cayman Islands with limited liability)*

## Opinion

### What we have audited

The consolidated financial statements of Tourism International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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.

## 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.

Key audit matter identified in our audit are summarized as follows:

1) Impairment valuation of trade receivables;

2) Fair value measurement of convertible notes;

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **1) Impairment valuation of trade receivables** | |
| Refer to note 4(a) and note 16 to the consolidated financial statements.<br><br>As at 31 December 2017, trade receivables amounted to RMB159,159,000 and the allowance for impairment of trade receivables amounted to RMB101,000.<br><br>Management assesses the recoverability of trade receivables which are classified into the two categories, namely paper cigarette package business and social product paper package business periodically.<br><br>In determining the allowance for trade receivables of paper cigarette package business, management considers the business performance, credit history including default or delay in payments and settlement records of the customers. Management concluded there was no impairment indicator as at 31 December 2017.<br><br>As for determining the allowance for trade receivables of social product paper package business, the assessment is based on the aging analysis of each receivable balance supplemented by the specific review with consideration of business performance, financial capability, credit history including default or delay in payments and settlements records of the customers. The impairment provision as at 31 December 2017 amounting to RMB101,000 was made based on the assessment as at 31 December 2017.<br><br>We identified the impairment valuation of trade receivables as a key audit matter due to the size of the balances and management's use of significant judgement and estimates in assessing the recoverability of trade receivables. | Our procedures in relation to management's impairment valuation of trade receivables included:<br><br>We understood, evaluated and validated management's controls to review, assess and determine the impairment of trade receivables, including controls over identification of objective evidence of impairment and estimation of the impairment provision.<br><br>On a sample basis, we assessed the collectability of the trade receivables of paper cigarette package business by assessing the business performance, checking the supporting evidence, including credit history, and subsequent settlements of these customers.<br><br>On a sample basis, we independently tested the aging analysis of the trade receivables of social product paper packages business and also assessed the recoverability of trade receivables, focusing on significant, long-aged or other high risk balances.<br><br>We assessed the appropriateness of the management's estimate of impairment provisions by considering the historical bad debts amounts and pattern, taking into consideration of factors such as customers' credit and settlement records.<br><br>Based on the procedures performed, we considered management's judgments in assessing the recoverability of trade receivables were supported by the evidence we gathered. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **2) Fair value measurement of convertible notes** | |
| Refer to note 3.3, note 4(b) and note 25 to the consolidated financial statements.<br><br>Management has estimated the fair value of the Group's convertible notes to be RMB106,962,000 at 31 December 2017, with a fair value loss of RMB7,021,000 for the year ended 31 December 2017 recorded in the consolidated statement of comprehensive income. External valuations were obtained for the convertible notes in order to support management's estimates.<br><br>The principal amount of convertible notes is HKD120,000,000 and with the coupon rate of 4.8% per annum. The whole convertible notes were initially recognised as a financial liability at fair value through profit or loss and measured at fair value at each balance sheet date.<br><br>The fair value of convertible notes was measured based on significant unobservable inputs and classified as "level 3 financial instruments".<br><br>We focused on this area due to the high degree of judgement required in determining the respective fair values of the convertible notes, which do not have direct open market quoted values, including the adoption of applicable valuation methodology and the application of key assumptions in the valuation. | Our procedures in relation to management's fair value measurement of the convertible notes included:<br><br>We evaluated the competence, capabilities and objectivity of the independent external valuer engaged by the Company for the valuation of the convertible notes.<br><br>We involved our internal valuation specialist to discuss with management and the external valuer and assessed the appropriateness of valuation methodology.<br><br>We also worked with our internal valuation specialist to evaluate the key underlying assumptions used in the valuation as at 15 September 2017 (the contract date), 18 October 2017 (the issuance date) and 31 December 2017, including discount rates, risk-free rate, stock price volatility based on the industry knowledge as well as underlying supporting documentation.<br><br>We tested the arithmetical accuracy of the valuation computation.<br><br>Based on the procedures performed, we found that the valuation methodology of convertible notes and the assumptions made by management are supported by available evidence. |

## Other Information

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

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

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

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

## Responsibilities of Directors and 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Li, Jack.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 27 March 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Note | Year ended 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **530,000** | 516,074 |
| Cost of sales | 9 | **(412,849)** | (412,760) |
| **Gross profit** | | **117,151** | 103,314 |
| Distribution costs | 9 | **(33,317)** | (31,191) |
| Administrative expenses | 9 | **(60,178)** | (55,090) |
| Other income | 6 | **342** | 1,525 |
| Other losses | 7 | **(11,751)** | (1,037) |
| **Operating profit** | | **12,247** | 17,521 |
| Finance income | 8 | **1,163** | 1,420 |
| Finance costs | 8 | **(7,852)** | (9,791) |
| Finance costs (net) | 8 | **(6,689)** | (8,371) |
| **Profit before income tax** | | **5,558** | 9,150 |
| Income tax credit/(expense) | 12 | **747** | (4,516) |
| **Profit for the year** | | **6,305** | 4,634 |
| **Profit attributable to:** | | | |
| — Owners of the Company | | **2,311** | 2,556 |
| — Non-controlling interests | | **3,994** | 2,078 |
| **Profit for the year** | | **6,305** | 4,634 |
| **Other comprehensive income** | | | |
| Currency translation differences | | **81** | 112 |
| **Other comprehensive income, net of tax** | | **81** | 112 |
| **Total comprehensive income for the year** | | **6,386** | 4,746 |
| **Total comprehensive income for the year attributable to:** | | | |
| — Owners of the Company | | **2,392** | 2,668 |
| — Non-controlling interests | | **3,994** | 2,078 |
| **Total comprehensive income for the year** | | **6,386** | 4,746 |
| **Earnings per share attributable to owners of the Company** | | | |
| — Basic and diluted earnings per share | 13 | **0.01** | 0.01 |

The notes on pages 57 to 107 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2017

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Land use rights | *15* | **21,488** | 22,098 |
| Property, plant and equipment | *14* | **138,783** | 167,239 |
| Deferred income tax assets | *22* | **3,909** | 1,501 |
| | | **164,180** | 190,838 |
| **Current assets** | | | |
| Inventories | *17* | **148,429** | 109,559 |
| Trade and other receivables | *16* | **216,976** | 276,315 |
| Restricted cash | *18* | **58,145** | 54,013 |
| Cash and cash equivalents | *18* | **193,938** | 58,199 |
| | | **617,488** | 498,086 |
| **Total assets** | | **781,668** | 688,924 |
| **EQUITY** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | *19* | **2,382** | 2,382 |
| Other reserves | *20* | **164,506** | 160,472 |
| Retained earnings | *21* | **27,330** | 28,972 |
| | | **194,218** | 191,826 |
| Non-controlling interests | | **40,474** | 38,764 |
| **Total equity** | | **234,692** | 230,590 |

# CONSOLIDATED BALANCE SHEET *(Continued)*

As at 31 December 2017

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Convertible notes | *25* | **106,962** | – |
| Deferred income tax liabilities | *22* | **–** | 4,043 |
| | | **106,962** | 4,043 |
| **Current liabilities** | | | |
| Trade and other payables | *23* | **296,497** | 303,414 |
| Income tax payable | | **3,527** | 877 |
| Borrowings | *24* | **139,990** | 150,000 |
| | | **440,014** | 454,291 |
| **Total liabilities** | | **546,976** | 458,334 |
| **Total equity and liabilities** | | **781,668** | 688,924 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 52 to 107 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf by:

| **Li Tie** | **Huang Erwei** |
|---|---|
| *Executive Director* | *Executive Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to the owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2016** | 2,382 | 158,600 | 28,176 | 189,158 | 36,686 | 225,844 |
| **Comprehensive income** | | | | | | |
| Profit for the year | – | – | 2,556 | 2,556 | 2,078 | 4,634 |
| **Other comprehensive income** | | | | | | |
| Currency translation differences, net | – | 112 | – | 112 | – | 112 |
| **Total comprehensive income for the year** | – | 112 | 2,556 | 2,668 | 2,078 | 4,746 |
| **Transactions with owners** | | | | | | |
| Appropriation to statutory reserves | – | 1,760 | (1,760) | – | – | – |
| **Balance at 31 December 2016** | 2,382 | 160,472 | 28,972 | 191,826 | 38,764 | 23,590 |
| **Balance at 1 January 2017** | **2,382** | **160,472** | **28,972** | **191,826** | **38,764** | **23,590** |
| **Comprehensive income** | | | | | | |
| Profit for the year | **–** | **–** | **2,311** | **2,311** | **3,994** | **6,305** |
| **Other comprehensive income** | | | | | | |
| Currency translation differences, net | **–** | **81** | **–** | **81** | **–** | **81** |
| **Total comprehensive income for the year** | **–** | **81** | **2,311** | **2,392** | **3,994** | **6,386** |
| **Transactions with owners** | | | | | | |
| Dividends to non-controlling interests | **–** | **–** | **–** | **–** | **(2,284)** | **(2,284)** |
| Appropriation to statutory reserves | **–** | **3,953** | **(3,953)** | **–** | **–** | **–** |
| **Balance at 31 December 2017** | **2,382** | **164,506** | **27,330** | **194,218** | **40,474** | **234,692** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2017** | 2016 |
| | *Note* | **RMB'000** | RMB'000 |
| **Cash flows from operating activities** | | | |
| Cash generated from/(used in) operations | *29* | **74,825** | (34,469) |
| Interest received | | **1,163** | 1,420 |
| Interest paid | | **(8,028)** | (7,840) |
| Income tax paid | | **(3,741)** | (2,593) |
| Net cash generated from/(used in) operating activities | | **64,219** | (43,482) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(5,956)** | (3,185) |
| Payment for land use right deposit | | **(9,000)** | – |
| Proceeds from disposal of property, plant and equipment | | **779** | 79 |
| Net cash used in investing activities | | **(14,177)** | (3,106) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **179,990** | 180,000 |
| Proceeds from issue of convertible notes, net of transaction costs | | **98,778** | – |
| Proceeds from immediate holding company | | **2,463** | – |
| Repayments of borrowings | | **(190,000)** | (173,500) |
| Changes in restricted cash pledged for borrowings | | **(4,132)** | 42,987 |
| Net cash generated from financing activities | | **87,099** | 49,487 |
| **Net increase in cash and cash equivalents** | | **137,141** | 2,899 |
| Effect of foreign exchange rate changes | | **(1,402)** | 106 |
| Cash and cash equivalents at beginning of the year | | **58,199** | 55,194 |
| **Cash and cash equivalents at end of the year** | *18* | **193,938** | 58,199 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## 1 General information

Tourism International Holdings Limited (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. The Company was formerly known as Jia Yao Holdings Limited and the name of the Company was changed to its current name on 12 January 2018.

The Company and its subsidiaries (together, the "Group") are engaged in the design, printing and sales of paper cigarette packages and social product paper packages in Hubei Province, the People's Republic of China (the "PRC").

The Company's registered office is located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1–1001, Cayman Islands, and the address of the principal place of business is No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC.

The Company's ordinary shares was listed on the main board of The Stock Exchange of Hong Kong Limited on 27 June 2014.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements set out on pages 52 to 107 have been approved for issue by the board of directors (the "Board") of the Company on 27 March 2018.

## 2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Tourism International Holdings Limited and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of financial liabilities (including derivative instruments) measured at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2 Summary of significant accounting policies (Continued)

### 2.2 Changes in accounting policies and disclosures

(a) New standards and interpretations not yet adopted

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2017:

HKAS 7 (Amendments) "Statement of cash flows" is effective for annual periods beginning on or after 1 January 2017. The amendments introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments and interpretations as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

(b) Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group.

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKAS 12 (Amendments) | Income taxes | 1 January 2017 |
| HKFRS 12 (Amendment) | Disclosure of interest in other entities | 1 January 2017 |

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| HKFRS 1 (Amendment) | First time adoption of HKFRS | 1 January 2018 |
| HKFRS 2 (Amendments) | Classification and measurement of share-based payment transactions | 1 January 2018 |
| HKFRS 4 (Amendments) | Insurance contracts | 1 January 2018 or when the entity first applies HKFRS 9 |
| HKFRS 9 | Financial instruments | 1 January 2018 |
| HKFRS 15 | Revenue from contracts with customers | 1 January 2018 |
| HK (IFRIC) 22 | Foreign currency transactions and advance consideration | 1 January 2018 |
| HKAS 28 (Amendment) | Investments in associates and joint ventures | 1 January 2018 |
| HKAS 40 (Amendments) | Transfers of investment property | 1 January 2018 |
| HKFRS 16 | Leases | 1 January 2018 |
| HK (IFRIC) 23 | Uncertainty over income tax treatments | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

## 2 Summary of significant accounting policies *(Continued)*

### 2.2 Changes in accounting policies and disclosures *(Continued)*

(d) HKFRS 9, Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group does not expect the new guidance to have significant impact on the classification and measurement of its financial assets as the Group does not have:

— Debt instrument that are classified as available-for-sale financial assets;
— Debt instrument classified as held-to-maturity and measured at amortised cost;
— Equity investment measured at fair value through profit or loss.

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. The convertible notes issued by the Company is measured at fair value at each balance date. The amount that is attributable to changes in the credit risk of the liability component shall be presented in other comprehensive income. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any hedge instrument. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the preliminary assessment result, the Group does not expect material change to the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

## 2 Summary of significant accounting policies *(Continued)*

### 2.2 Changes in accounting policies and disclosures *(Continued)*

(e) HKFRS 15, Revenues from Contracts with Customers

Nature of change

The HKICPA issued HKFRS 15 as a new standard for the recognition of revenue to replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Based on the preliminary assessment result, the Group does not expect any material impact on the adoption of new HKFRS 15.

The Group is assessing the full impact of the above new standards, new interpretations and amendments to standards and interpretations.

### 2.3 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) Common control business combinations

The Group applies merger accounting to account for business combinations (including acquisition of subsidiaries) under common control, where all assets and liabilities are recorded at predecessor carrying amounts, as if the combining entities have been consolidated from the date when they first came under the control of the controlling party, and the difference between consideration payable and the net assets value are taken to the merger reserve.

## 2 Summary of significant accounting policies *(Continued)*

### 2.3 Subsidiaries *(Continued)*

(ii) Non-common control business combinations

The Group applies the acquisition method to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (note 2.9).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

## 2 Summary of significant accounting policies *(Continued)*

### 2.3 Subsidiaries *(Continued)*

(iii) Changes in ownership interests in subsidiaries without change of control *(Continued)*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

### 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the year the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The board of the Company has appointed a strategic steering committee which assesses the financial performance and position of the Group, and makes strategic decisions. The steering committee, which has been identified as being the chief operating decision maker, consists of the chief executive officer, the chief financial officer and the manager for corporate planning.

### 2.6 Foreign currency translation

(i) Functional and presentation currency

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

## 2 Summary of significant accounting policies *(Continued)*

### 2.6 Foreign currency translation *(Continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

## 2 Summary of significant accounting policies *(Continued)*

### 2.6 Foreign currency translation *(Continued)*

(iii) Group companies *(Continued)*

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

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

| | |
|---|---|
| • Buildings | 40 years |
| • Machinery | 10–15 years |
| • Vehicles | 3–5 years |
| • Furniture, fittings and equipment | 5 years |

## 2 Summary of significant accounting policies *(Continued)*

### 2.7 Property, plant and equipment *(Continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

### 2.8 Land use rights

All land in mainland China is state-owned and no individual land ownership right exists. The Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights, which are amortised over the use terms of 50 years using the straight-line method.

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2 Summary of significant accounting policies *(Continued)*

### 2.10 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

a. *Financial assets at fair value through profit or loss*

The Group classifies financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling in the short term, ie are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets. The Group has not elected to designate any financial assets at fair value through profit or loss.

b. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables and cash and cash equivalents.

c. *Held-to-maturity investments*

The Group classifies investments as held-to-maturity if:

- they are non-derivative financial assets
- they are quoted in an active market
- they have fixed or determinable payments and fixed maturities
- the Group intends to, and is able to, hold them to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which would be classified as current assets.

## 2 Summary of significant accounting policies *(Continued)*

### 2.10 Financial assets *(Continued)*

(i) Classification *(Continued)*

*d. Available-for-sale financial assets*

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

## 2 Summary of significant accounting policies *(Continued)*

### 2.10 Financial assets *(Continued)*

(iv) Measurement *(Continued)*

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' — in profit or loss within other income or other expenses;
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income;
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

### 2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Company has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

### 2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

## 2 Summary of significant accounting policies *(Continued)*

### 2.12 Impairment of financial assets *(Continued)*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

### 2.13 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within one year and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 2.10 for further information about the Group's accounting for trade receivables and note 2.12 for a description of the Group impairment policies.

### 2.15 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### 2.16 Share capital

Ordinary shares and non-redeemable participating preference shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2 Summary of significant accounting policies (Continued)

### 2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### 2.18 Convertible notes

The convertible notes issued by the Group can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. Convertible notes are recognised initially at fair value as a whole. The transaction cost that is directly attributed to the issue of the convertible notes is recognised as financial cost.

Subsequent to initial recognition, the convertible notes are measured at fair value at each balance date. Gains or losses arising from the difference between fair value and the carrying amount are recognised in profit or loss as other gains or losses.

### 2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

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

## 2 Summary of significant accounting policies *(Continued)*

### 2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

### 2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

## 2 Summary of significant accounting policies (Continued)

### 2.21 Current and deferred income tax (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 2.22 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

The Group entities in mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

### 2.23 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## 2 Summary of significant accounting policies *(Continued)*

### 2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

Revenue from the sales of goods is recognised when the Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery normally does not occur until the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contracts, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

### 2.25 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.26 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

### 2.27 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

## 2 Summary of significant accounting policies *(Continued)*

### 2.28 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

## 3 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group currently does not use any derivative financial instruments to hedge certain risk exposures.

### 3.1 Financial risk factors

(a) Market risk

*(i) Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, the Group has also certain bank deposits, trade and other receivables, trade and other payables and convertible notes which are denominated in currencies other than RMB (majority in Hong Kong dollars ("HKD"),and United States dollars ("USD")).

Management will monitor closely the foreign exchange risk exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2017, if RMB had strengthened/weakened by 5% against the USD and HKD, the Group's profit before income tax for the year would have been lower/higher by approximately RMB 253,000 (2016: higher/lower RMB 32,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD and HKD-denominated cash and cash equivalents, receivables, convertible notes and payables balances.

## 3 Financial risk management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits, borrowings and convertible notes. Bank deposits, borrowings and convertible notes at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits, borrowings and convertible notes have been disclosed in note 18, note 24 and note 25 respectively.

(b) Credit risk

Credit risk arises from restricted cash, cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

For deposits with banks and financial institutions (including restricted cash and cash and cash equivalents), the Group has limited its credit exposure by restricting their selection of banks and financial institutions on reputable international banks, major financial institutions in the PRC and PRC listed banks or state-owned banks.

For customers, 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.

Note receivables are mostly to be settled by reputable banks or state-owned banks and therefore the management considers that they will not expose the Group to any significant credit risk.

## 3 Financial risk management (Continued)

### 3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, discounting bank acceptance notes to banks and the ability to close out market positions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

*(i) Maturities of financial liabilities*

| | Less than 1 year RMB'000 | 1–2 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 31 December 2017** | | | |
| **Non-derivatives** | | | |
| Trade and other payables | **296,497** | **–** | **296,497** |
| Convertible notes | **4,815** | **105,123** | **109,938** |
| Borrowings | **142,384** | **–** | **142,384** |
| | **443,696** | **105,123** | **548,819** |

| | Less than 1 year RMB'000 | 1–2 years RMB'000 | Less than 1 year RMB'000 |
|---|---|---|---|
| **At 31 December 2016** | | | |
| **Non-derivatives** | | | |
| Trade and other payables | 303,414 | – | 303,414 |
| Borrowings | 152,651 | – | 152,651 |
| | 456,065 | – | 456,065 |

## 3 Financial risk management *(Continued)*

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Details of net debt is disclosed in note 29. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus total debt.

The gearing ratios are as follows:

| | As at 31 December | |
|---|---|---|
| **RMB'000** | **2017** | 2016 |
| Total borrowings | **246,952** | 150,000 |
| Less: cash and cash equivalents | **(193,938)** | (58,199) |
| Net debt | **53,014** | 91,801 |
| Total equity | **234,692** | 230,590 |
| Total capital | **287,706** | 322,391 |
| Gearing ratio (%) | **18%** | 28% |

### 3.3 Fair value estimation

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

## 3 Financial risk management *(Continued)*

### 3.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

The Group's financial liabilities that are measured at fair value as below:

| RMB'000 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| Financial liabilities at fair value through profit or loss | – | – | 106,962 | 106,962 |

As at 31 December 2017, the financial liabilities at fair value through profit or loss is the convertible notes (as at 31 December 2016: none).

*Fair value of financial assets and liabilities measured at amortised cost*

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents, restricted cash and time deposits) and short term liabilities (including trade and other payables and short term borrowings) are assumed to approximate their fair values due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Impairment of trade receivables

The balance of trade receivables are categorised into paper cigarette package and social product paper package. The Group's management determines the provision for impairment of trade receivables based on an assessment of the recoverability of the receivables. This assessment on the balance of paper cigarette package is based on the business performance, credit history and historical settlements records. As for the balance of social product paper package, the assessment is based on the aging analysis supplemented by the specific review on the balance considering the factor of financial capability of the customer, credit history, settlement records and other factors.

Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Management reassesses the provision at each balance sheet date. Where the expectation is different from the original estimate, such difference will impact carrying value of trade receivables and impairment charge in the period in which such estimate has been changed.

## 4 Critical accounting estimates and judgements *(Continued)*

### (b) Fair value measurement of convertible notes

The fair value of convertible notes was determined by using various valuation techniques. The Group uses its judgement to select variety of methods and make assumptions, including the volatility, stock price and discount rates, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of its balance and as a result affect the Group's financial condition and results of operation.

### (c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the date of statement of financial position and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

### (d) Impairment and useful lives of property, plant and equipment

The Group follows the guidance of HKAS 36 to determine when property, plant and equipment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, internal and external source information, including but not limited to whether:

(i) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;

(ii) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;

(iii) Evidence is available of obsolescence or physical damage of an asset; and

(iv) Evidence is available from internal reporting which indicates that the economic performance of an asset is, or will be, worse than expected.

Management estimates useful lives of the property, plant and equipment by reference to the Group's assets management policy, the industry practice, and technical or commercial obsolescence arising from changes or improvements in the market. The depreciation expense will be significantly affected by the useful lives of the property, plant and equipment as estimated by management.

## 5 Revenue and segment information

### (a) 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 operation 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

Social product paper packages — design, printing and sale of social product paper packages (e.g. packages for alcohol, medicines and food)

### (b) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the consolidated statement of comprehensive income.

The segment results for the year ended 31 December 2017:

| | Year ended 31 December 2017 | | |
|---|---|---|---|
| | Paper cigarette packages RMB'000 | Social product paper packages RMB'000 | Total RMB'000 |
| Revenue | 504,054 | 25,946 | 530,000 |
| Gross profit | 116,243 | 908 | 117,151 |
| Distribution costs | (31,122) | (2,195) | (33,317) |
| Segment results | 85,121 | (1,287) | 83,834 |
| Unallocated expenses | | | (60,178) |
| Other income | | | 342 |
| Other losses | | | (11,751) |
| Finance costs (net) *(note 8)* | | | (6,689) |
| Profit before income tax | | | 5,558 |

## 5 Revenue and segment information *(Continued)*

### (b) Segment revenue *(Continued)*

The segment results for the year ended 31 December 2016:

| | Year ended 31 December 2016 | | |
|---|---|---|---|
| | Paper cigarette packages RMB'000 | Social product paper packages RMB'000 | Total RMB'000 |
| Revenue | 478,240 | 37,834 | 516,074 |
| Gross profit | 98,742 | 4,572 | 103,314 |
| Distribution costs | (29,004) | (2,187) | (31,191) |
| Segment results | 69,738 | 2,385 | 72,123 |
| Unallocated expenses | | | (55,090) |
| Other income | | | 1,525 |
| Other losses | | | (1,037) |
| Finance costs (net) *(note 8)* | | | (8,371) |
| Profit before income tax | | | 9,150 |

### (c) Segment assets and liabilities

The total of non-current assets other than financial instruments and deferred income tax assets, broken down by location of the assets, is shown as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| China Mainland | **160,248** | 189,263 |
| Hong Kong | **23** | 74 |
| | **160,271** | 189,337 |

### (d) Information about major customers

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Customer A | **131,521** | 84,635 |
| Customer B | **94,179** | 81,597 |
| Customer C | **41,055** | 55,470 |
| | **266,755** | 221,702 |

These revenues are attributable to paper cigarette packages.

## 5 Revenue and segment information *(Continued)*

### (e) Other segment information

#### (i) Depreciation of property, plant and equipment

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Paper cigarette packages | 18,608 | 18,270 |
| Social product paper packages | 1,715 | 1,456 |
| Total | 20,323 | 19,726 |

#### (ii) Impairment of property, plant and equipment

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Paper cigarette packages | 10,840 | – |
| Social product paper packages | – | – |
| Total | 10,840 | – |

## 6 Other income

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Government grants | 323 | 735 |
| Sundry income | 19 | 790 |
| | 342 | 1,525 |

## 7 Other losses

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Change in fair value of financial liability at fair value through profit or loss *(note 25)* | 7,021 | – |
| Loss on disposal of property, plant and equipment | 3,986 | 1,037 |
| Others | 744 | – |
| | 11,751 | 1,037 |

## 8 Finance costs (net)

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Interest income on bank deposits | **(1,163)** | (1,420) |
| Interest on bank borrowings | **8,028** | 7,840 |
| Finance costs arising on early redemption of note receivables | **–** | 1,705 |
| Exchange gain, net | **(378)** | – |
| Other bank charges | **202** | 246 |
| | **6,689** | 8,371 |

## 9 Expense by nature

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Operating profit for the year has been arrived at after charging: | | |
| Employee benefits expenses: | | |
| Directors' emoluments | **603** | 796 |
| Salaries and other benefits | **80,598** | 80,864 |
| Contributions to retirement benefits scheme, excluding those of directors | **7,208** | 7,144 |
| | **88,409** | 88,804 |
| Raw materials and consumables used | **359,551** | 341,406 |
| Changes in inventories of finished goods and work in progress | **(33,031)** | (5,759) |
| Depreciation | **20,323** | 19,726 |
| Transportation cost | **19,988** | 17,826 |
| Energy and water expense | **12,397** | 12,740 |
| Recognition of impairments losses | **12,210** | 57 |
| Social entertainment expense | **8,342** | 6,063 |
| Real estate tax, stamp duties and other taxes | **4,117** | 5,107 |
| Professional service expense | **5,473** | 2,139 |
| Office expense | **2,399** | 3,154 |
| Operating lease rentals in respect of rented premises | **1,645** | 2,868 |
| Auditors' remuneration | **1,050** | 1,010 |
| Amortisation | **610** | 610 |
| Other operating expenses | **2,861** | 3,290 |
| | **417,935** | 410,237 |
| Total cost of sales, distribution costs and administrative expenses | **506,344** | 499,041 |

## 10 Employee benefit expense

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Wages and salaries | **79,702** | 78,041 |
| Welfare, medical and other expense | **8,707** | 10,763 |
| Total employee benefit expense | **88,409** | 88,804 |

### (a) Five highest paid individuals

The emoluments payable to the five (2016: five) highest paid individuals during the year are as follows:

| | 2017<br>RMB'000 | 2016<br>RMB'000 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | **1,310** | 1,550 |
| Contribution to pension scheme | **162** | 187 |
| | **1,472** | 1,737 |

Each of their emoluments for the years ended December 2017 and 2016 was within HK$1,000,000.

## 11 Subsidiaries

The Group's principal subsidiaries at 31 December 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

| Name of entity | Place of incorporation and kind of legal entity | Principal activities and place of operation | Ownership interest held by the Group 2017 % | 2016 % |
|---|---|---|---|---|
| Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司) | China, limited liability company | Design, printing and sales of paper cigarette packages and social product paper packages in the PRC | **82.86** | 82.86 |
| Dangyang Liantong Printing Industry Co., Ltd.* (當陽金三峽聯通印務有限公司) | China, limited liability company | Design, printing and sales of paper cigarette packages and social product paper packages in the PRC | **87.15** | 87.15 |
| King Heritage (BVI) Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Southwick Global (BVI) Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Success Up Global (BVI) Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Utter Success (BVI) Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Wealth Basin (BVI) Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Giant Harmony Limited | BVI, limited liability company | Investment holding in BVI | **100.00** | 100.00 |
| Park Linker Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | **100.00** | 100.00 |
| King Gather Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | **100.00** | 100.00 |
| Easy Creator Limited | Hong Kong, limited liability company | Investment holding in Hong Kong | **100.00** | 100.00 |

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

## 12 Income tax credit/(expense)

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| Current income tax | | |
| — PRC corporate income tax *(note i)* | **(5,704)** | (4,233) |
| Deferred income tax | | |
| — Deferred tax assets | **2,408** | (430) |
| — Deferred tax liabilities *(note ii) (note 22)* | **4,043** | 147 |
| Income tax credit/(expense) | **747** | (4,516) |

**(i) PRC corporate income tax ("CIT")**

The Company is not subject to any taxation in the Cayman Islands.

Hong Kong subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% (2016: 16.5%). Hong Kong profits tax has not been provided for subsidiaries incorporated in Hong Kong as these subsidiaries did not have estimated assessable profit for the year.

Hubei Golden Three Gorges Printing Industry Co., Ltd. has been recognised as the High New Tech Enterprises in 2015. According to the tax incentives of the Corporate Income Tax Law of the PRC (the "CIT Law") for High New Tech Enterprises, Hubei Golden Three Gorges Printing Industry Co., Ltd. is subject to a reduced corporate income tax rate of 15% in 2017 (2016: 15%).

The remaining subsidiary is subject to the PRC corporate income tax, which has been calculated based on the corporate income tax rate of 25% (2016: 25%).

**(ii) PRC withholding income tax**

Under relevant tax laws and regulations, dividends distributed from the PRC subsidiaries to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. In the current year, the Group plans to use the unremitted earnings of the PRC subsidiaries up to 31 December 2017 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2017.

## 12 Income tax credit/(expense) *(Continued)*

### (ii) PRC withholding income tax *(Continued)*

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

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Profit before income tax | **5,558** | 9,150 |
| Tax at PRC CIT rate of 15% | **(834)** | (1,373) |
| Different tax rate impact of certain subsidiaries | **(1,396)** | (95) |
| Tax losses for which no deferred income tax asset was recognised | **(2,426)** | (3,417) |
| Expenses not deductible for tax purposes | **(2,324)** | (1,432) |
| Additional deduction on research and development expenditures | **1,703** | 1,948 |
| Recognition of previously unrecognised tax losses | **3,499** | – |
| Withholding tax at 10% on the distributable profits paid in the year | **(1,518)** | – |
| Withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries *(note 22)* | **–** | (147) |
| Reversal of withholding tax *(note 22)* | **4,043** | – |
| | **747** | (4,516) |

## 13 Earnings per share

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2017** | 2016 |
|---|---|---|
| Profit attributable to the owners of the Company (RMB'000) | **2,311** | 2,556 |
| Weighted average number of ordinary shares in issue ('000) | **300,000** | 300,000 |
| Basic earnings per share (RMB) | **0.01** | 0.01 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

As the convertible notes is anti-dilutive, diluted earnings per share is the same as the basic earnings per share.

## 14 Property, plant and equipment

| | Buildings RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipments RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2016** | | | | | | |
| Cost | 26,328 | 328,908 | 13,067 | 9,416 | 150 | 377,869 |
| Accumulated depreciation | (10,665) | (144,060) | (10,545) | (5,330) | – | (170,600) |
| Provision | (1,933) | (21,328) | – | – | – | (23,261) |
| Net book amount | 13,730 | 163,520 | 2,522 | 4,086 | 150 | 184,008 |
| **Year ended 31 December 2016** | | | | | | |
| Opening net book amount | 13,730 | 163,520 | 2,522 | 4,086 | 150 | 184,008 |
| Additions | – | – | 62 | – | 4,011 | 4,073 |
| Internal transfer | 8 | 4,003 | – | – | (4,011) | – |
| Reduction | – | (740) | (20) | (356) | – | (1,116) |
| Depreciation | (1,382) | (17,145) | (497) | (702) | – | (19,726) |
| **As at 31 December 2016** | 12,356 | 149,638 | 2,067 | 3,028 | 150 | 167,239 |
| **Year ended 31 December 2017** | | | | | | |
| Opening net book amount | **12,356** | **149,638** | **2,067** | **3,028** | **150** | **167,239** |
| Additions | **–** | **1,002** | **399** | **–** | **6,071** | **7,472** |
| Internal transfer | **–** | **6,071** | **–** | **–** | **(6,071)** | **–** |
| Reduction | **–** | **(4,736)** | **(29)** | **–** | **–** | **(4,765)** |
| Depreciation | **(1,302)** | **(17,837)** | **(514)** | **(670)** | **–** | **(20,323)** |
| Provision | **–** | **(10,840)** | **–** | **–** | **–** | **(10,840)** |
| **As at 31 December 2017** | **11,054** | **123,298** | **1,923** | **2,358** | **150** | **138,783** |
| **At 31 December 2017** | | | | | | |
| Cost | **26,336** | **306,073** | **12,848** | **8,197** | **150** | **353,604** |
| Accumulated depreciation | **(13,349)** | **(158,117)** | **(10,925)** | **(5,839)** | **–** | **(188,230)** |
| Provision | **(1,933)** | **(24,658)** | **–** | **–** | **–** | **(26,591)** |
| Net book amount | **11,054** | **123,298** | **1,923** | **2,358** | **150** | **138,783** |

As at 31 December 2017, plant and equipment with net book value of RMB102,693,000 (2016: RMB132,026,000) (note 27) have been pledged as security for bank borrowings of the Group amounting to RMB139,990,000 (2016: RMB150,000,000) (note 24).

## 14 Property, plant and equipment *(Continued)*

(a) Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

| | **2017** | 2016 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Cost of sales *(note 9)* | **18,362** | 18,172 |
| Administrative expenses *(note 9)* | **1,815** | 1,322 |
| Distribution costs *(note 9)* | **146** | 232 |
| | **20,323** | 19,726 |

**(b) Impairment loss**

A provision for idle machinery of RMB10,840,000 was made for the year ended 31 December 2017. The machinery became idle because of industry technology improvement. Management estimated the recoverable amount by taking current value and residual value into consideration.

## 15 Land use rights

| | Total RMB'000 |
|---|---|
| **At 1 January 2016** | |
| Cost | 27,490 |
| Accumulated amortisation | (5,514) |
| Net book amount | 21,976 |
| **Year ended 31 December 2016** | |
| Opening net book amount | 21,976 |
| Additions | 732 |
| Amortisation | (610) |
| **As at 31 December 2016** | 22,098 |
| **Year ended 31 December 2017** | |
| Opening net book amount | **22,098** |
| Amortisation | **(610)** |
| **Closing net book amount as at 31 December 2017** | **21,488** |
| **At 31 December 2017** | |
| Cost | **28,222** |
| Accumulated amortisation | **(6,734)** |
| Net book amount | **21,488** |

As at 31 December 2017, land use rights with net book value of RMB20,569,000 (2016: RMB21,179,000) (note 27) have been pledged as security for bank borrowings of the Group amounting to RMB139,990,000 (2016: RMB150,000,000) (note 24).

(a) Amortization expenses were charged to the consolidated statement of comprehensive income as follows:

| | **2017 RMB'000** | 2016 RMB'000 |
|---|---|---|
| Administrative expenses *(note 9)* | **610** | 610 |

## 16 Trade and other receivables

### (i) Trade and other receivables

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Trade receivables due from third parties | **159,159** | 206,356 |
| Less: allowance for doubtful debts | **(101)** | (146) |
| | **159,058** | 206,210 |
| Note receivables | **25,273** | 34,726 |
| Advance to employees | **13,394** | 9,789 |
| Payments in advance | **3,571** | 14,185 |
| Deposits paid | **15,204** | 9,405 |
| Others | **476** | 2,000 |
| | **57,918** | 70,105 |
| Total trade and other receivables | **216,976** | 276,315 |

### (ii) Trade receivables pledged

As at 31 December 2017, trade receivables with net book value of RMB114,623,000 (2016: RMB139,795,000) (note 27) have been pledged as security for bank borrowings of the Group amounting to RMB139,990,000 (2016: RMB150,000,000) (note 24).

The ageing analysis of the trade receivables based on invoice date is as follows:

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| 0 to 90 days | **149,991** | 142,243 |
| 91 to 180 days | **1,002** | 56,294 |
| 181 to 360 days | **4,731** | 4,089 |
| Over 360 days | **3,435** | 3,730 |
| | **159,159** | 206,356 |

## 16 Trade and other receivables *(Continued)*

### (iii) Trade receivables by segment

Trade receivables by segment are as follows:

| | **As at 31 December 2017 RMB'000** | As at 31 December 2016 RMB'000 |
|---|---|---|
| Paper cigarette packages | **153,210** | 193,441 |
| Social product paper packages | **5,949** | 12,915 |
| | **159,159** | 206,356 |

### (iv) Impaired trade receivables

Movements in the provision for impairment of trade receivables that are assessed for impairment collectively are as follows:

| | **As at 31 December 2017 RMB'000** | As at 31 December 2016 RMB'000 |
|---|---|---|
| At 1 January | **146** | 46 |
| Provision for impairment recognised during the year | **–** | 110 |
| Impaired receivables collected | **(45)** | (10) |
| At 31 December | **101** | 146 |

### (v) Past due but not impaired

As at 31 December 2017, trade receivables of RMB31,561,000 (2016: RMB33,134,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | **As at 31 December 2017 RMB'000** | As at 31 December 2016 RMB'000 |
|---|---|---|
| Up to 3 months | **23,510** | 28,839 |
| 3 to 6 months | **1,022** | 1,590 |
| 6 months to 1 year | **5,581** | 2,347 |
| Over 1 year | **1,448** | 358 |
| | **31,561** | 33,134 |

## 17 Inventories

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Raw materials and packaging materials | 61,714 | 53,912 |
| Finished goods | 71,790 | 40,531 |
| Work in progress | 17,190 | 15,418 |
| Provision for Inventory | (2,265) | (302) |
| | 148,429 | 109,559 |

### (i) Assigning costs to inventories

The costs of individual items of inventory are determined using weighted average costs. The cost of inventories recognised as expenses and included in 'cost of sales' amounted to RMB326,520,000 for the year ended 31 December 2017 (2016: RMB335,647,000) (note 9).

### (ii) Amounts recognised in profit or loss

Write-downs of inventories to net realisable value amounted to RMB1,963,000 (2016: nil). These were recognised as an expense during the year ended 31 December 2017 and included in "cost of sales" in profit or loss.

## 18 Cash and cash equivalents and restricted cash

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Cash at bank and on hand | 252,083 | 112,212 |
| Less: Restricted cash | 58,145 | 54,013 |
| Cash and cash equivalents | 193,938 | 58,199 |

As at 31 December 2017, Hubei Golden Three Gorges Printing Industry Co., Ltd, a subsidiary of the Group, pledged deposits of RMB58,145,000 (2016: RMB54,013,000) as collateral for issuance of note payables (note 23).

## 19 Share capital

**Ordinary shares, issued and fully paid:**

| **As at 31 December 2016 and 2017** | **Number of shares** | Share capital HKD '000 | RMB '000 |
|---|---|---|---|
| **Authorised:** | | | |
| Ordinary shares of HK$0.01 each | **2,000,000,000** | 20,000 | 15,880 |
| **Issued and fully paid:** | | | |
| Ordinary shares of HK$0.01 each | **300,000,000** | 3,000 | 2,382 |

## 20 Other reserves

The following table shows a breakdown of the consolidated balance sheet line item 'other reserves' and the movements in these reserves during the year. A description of the nature and purpose of each reserve is provided below the table.

| | **Share premium** RMB'000 | **Statutory reserves** RMB'000 | **Foreign currency translation** RMB'000 | **Special reserves** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2016 | 25,200 | 42,309 | (359) | 91,450 | 158,600 |
| Appropriation to statutory reserves | – | 1,760 | – | – | 1,760 |
| Currency translation differences | – | – | 112 | – | 112 |
| **At 31 December 2016** | 25,200 | 44,069 | (247) | 91,450 | 160,472 |
| Appropriation to statutory reserves | **–** | **3,953** | **–** | **–** | **3,953** |
| Currency translation differences | **–** | **–** | **81** | **–** | **81** |
| **At 31 December 2017** | **25,200** | **48,022** | **(166)** | **91,450** | **164,506** |

The special reserves mainly include waiver of liabilities due to related parties in previous year.

## 21 Retained earnings

| | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|
| As at 1 January | **28,972** | 28,176 |
| Net profit for the year | **2,311** | 2,556 |
| Transfer to PRC statutory reserve *(note i)* | **(3,953)** | (1,760) |
| **As at 31 December** | **27,330** | 28,972 |

**(i) Statutory reserves**

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors of the company.

## 22 Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

| | As at 31 December 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Deferred income tax assets: | | |
| Deferred income tax assets to be recovered within 12 months | **3,909** | 1,501 |
| Deferred income tax liabilities: | | |
| Deferred income tax liabilities to be recovered after more than 12 months | **–** | (4,043) |
| Deferred income tax assets/(liabilities) | **3,909** | (2,542) |

| **Deferred income tax assets** | **Provisions** RMB'000 | **Impairment losses** RMB'000 | **Accrued expenses** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2016 | – | – | 2,071 | 2,071 |
| Charged to the consolidated statement of comprehensive income | – | – | (570) | (570) |
| At 31 December 2016 | – | – | 1,501 | 1,501 |
| At 1 January 2017 | **–** | **–** | **1,501** | **1,501** |
| Charged/(credited) to the consolidated statement of comprehensive income | **165** | **3,744** | **(1,501)** | **2,408** |
| At 31 December 2017 | **165** | **3,744** | **–** | **3,909** |

Deferred income tax assets are recognized for tax loss carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group did not recognize deferred income tax assets of approximately RMB3,429,000 (2016: RMB1,493,000) in respect of tax losses amounting to approximately RMB15,041,000 (2016: RMB6,715,000).

| **Deferred income tax liabilities** | **Withholding tax** RMB'000 |
|---|---|
| At 1 January 2016 | 3,896 |
| Charged to the consolidated statement of comprehensive income | 147 |
| At 31 December 2016 | 4,043 |
| At 1 January 2017 | **4,043** |
| Credited to the consolidated statement of comprehensive income | **(4,043)** |
| At 31 December 2017 | **–** |

## 22 Deferred income tax *(Continued)*

Pursuant to the PRC CIT Law, all foreign invested enterprises in the PRC are subject to the withholding tax for their earnings generated after 1 January 2008. In the current year, the Group plans to use the unremitted earnings of the PRC subsidiaries up to 31 December 2017 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2017.

## 23 Trade and other payables

| | **As at 31 December 2017 RMB'000** | As at 31 December 2016 RMB'000 |
|---|---|---|
| Trade payables due to third parties | **152,369** | 177,988 |
| Note payables | **116,100** | 107,600 |
| Salary payables | **9,502** | 7,807 |
| Tax payables *(note i)* | **6,648** | 5,391 |
| Payable to immediate holding company *(note 30(b))* | **2,463** | – |
| Dividends payable to non-controlling interests | **2,284** | – |
| Others | **7,131** | 4,628 |
| | **144,128** | 125,426 |
| Total trade and other payables | **296,497** | 303,414 |

(i) Certain of the Group's entities are subject to output VAT which is generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of raw materials, semi-finished products or other can be used to offset the output VAT to determine the net VAT payable. The subsidiaries are also subject to city construction tax and educational surcharge based on 5% or 7% and 5% of net VAT payable, respectively.

The ageing analysis of trade payables based on invoice date is as follows:

| | **As at 31 December 2017 RMB'000** | As at 31 December 2016 RMB'000 |
|---|---|---|
| Up to 6 months | **139,465** | 167,667 |
| 6 months to 1 year | **11,155** | 6,644 |
| 1 year to 2 years | **1,749** | 3,677 |
| | **152,369** | 177,988 |

## 24 Borrowings

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Short-term bank borrowings — secured | 139,990 | 150,000 |

As at 31 December 2017, short-term bank borrowings of RMB139,990,000 (2016: RMB150,000,000) of the Group are secured by the pledge of the account receivables (note 16 and note 27), land use rights and property, plant and equipment (note 14, note 15 and note 27) of the Group.

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

| | As at 31 December 2017 | As at 31 December 2016 |
|---|---|---|
| Fixed-rate borrowings | 5.19% | 5.08% |

## 25 Convertible notes

On 15 September 2017, The Company entered into the placing agreement of convertible notes with placing agent and completed an issuance of convertible notes with a coupon rate of 4.8% per annum at a total principal value of HKD120,000,000 (equivalent to approximately RMB101,424,000) on 18 October 2017.

According to agreement, the convertible notes can be converted into the Company's shares at the noteholder's option from the day following 180 days after the date of issue to the fourteenth day prior to and exclusive of the maturity date at their principal amount. The conversion price is HKD2.025. Any principal amount that remains outstanding upon maturity date shall be redeemed.

The convertible notes is initially recognised as a financial liability at fair value and measured at fair value through profit and loss at 31 December 2017. The fair value of convertible notes is HKD127,960,000 (RMB106,962,000) as at 31 December 2017.

The convertible notes recognised in the consolidated balance sheet were as follows:

| | 2017 RMB'000 |
|---|---|
| As at 1 January 2017 | – |
| Addition | 101,424 |
| Fair value change recognized *(note 7)* | 7,021 |
| Exchange reserves | (1,483) |
| As at 31 December 2017 | 106,962 |

## 25 Convertible notes *(Continued)*

### (i) Valuation inputs and relationships to fair value

| Description | Fair value at 31 December 2017 RMB'000 | Unobservable inputs | Range of inputs | Relationship of unobservable inputs to fair value 2017 RMB'000 |
|---|---|---|---|---|
| Convertible notes | 106,962 | Volatility | 33.35% | Increased volatility factor (+5%) would increase fair value by RMB1,764,000; lower volatility factor (-5%) would decrease fair value by RMB1,764,000 |
| | | Stock price | HKD2.04 | Increased stock price factor (+HKD0.1) would increase fair value by RMB4,410,000; lower stock price factor (-HKD0.1) would decrease fair value by RMB2,646,000 |
| | | Discount Rate | 12.52% | Increased discount rate factor (+1%) would decrease fair value by RMB882,000; lower discount rate factor (-1%) would increase fair value by RMB882,000 |

### (ii) Valuation processes

The management of the Group involved an independent valuer that performs the valuations of convertible notes required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held independently.

The main level 3 inputs used by the Group are derived and evaluated as follows:

- The stock prices are based on the closing stock price of the Company as at the date of valuation.
- The expected volatility rates are estimated based on the historical price volatilities of the Company and also with the reference to historical price volatilities of comparable companies.
- Discount rates for convertible notes are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.

## 26 Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (for the year ended 31 December 2016: nil).

## 27 Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

| | Note | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|---|
| **Current** | | | |
| Restricted Cash | *18* | **58,145** | 54,013 |
| Trade receivables | | **114,623** | 139,795 |
| **Total current assets pledged as security for borrowings** | | **172,768** | 193,808 |
| **Non-current** | | | |
| Plant and equipment | *14* | **102,693** | 132,026 |
| Land use rights | *15* | **20,569** | 21,179 |
| **Total non-current assets pledged as security for borrowings** | | **123,262** | 153,205 |
| **Total assets pledged as security for borrowings** | | **296,030** | 347,013 |

## 28 Commitment

### (a) Operating lease commitments — the Group as lessee

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Within one year | **1,014** | 740 |
| Later than 1 year and no later than 5 years | **3,923** | 365 |
| Later than 5 years | **2,207** | 38 |
| | **7,144** | 1,143 |

## 28 Commitment *(Continued)*

### (b) Capital commitment

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| Property, plant and equipment | – | 2,900 |

## 29 Notes to the consolidated statement of cash flows

### (a) Reconciliation of profit before income tax to net cash generated from operations

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Profit before income tax | | 5,558 | 9,150 |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | *14* | 20,323 | 19,726 |
| Amortisation of land use rights | *15* | 610 | 610 |
| Loss on disposal of property, plant and equipment | *7* | 3,986 | 1,037 |
| Finance costs | *8* | 6,689 | 8,371 |
| Cost of issuing convertible notes | | 2,646 | – |
| Recognition of impairment losses | | 12,210 | 57 |
| (Increase)/decrease in inventories | *17* | (40,833) | 575 |
| Change in fair value of financial liability at fair value through profit or loss | *7* | 7,021 | – |
| Decrease/(increase) in trade and other receivables | | 71,566 | (19,364) |
| Decrease in trade and other payables | | (14,951) | (54,631) |
| **Cash generated from/(used in) operations** | | 74,825 | (34,469) |

## 29 Notes to the consolidated statement of cash flows *(Continued)*

### (b) Proceeds from sale of property, plant and equipment

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| Net book amount | | | |
| — Property, plant and equipment | 14 | 4,765 | 1,116 |
| Losses on disposal of property, plant and equipment, net | 7 | (3,986) | (1,037) |
| Proceeds from disposal of property, plant and equipment | | 779 | 79 |

### (c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

| Net debt | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Cash and cash equivalents | 193,938 | 58,199 |
| Borrowings — fixed interest rates | (139,990) | (150,000) |
| Convertible notes | (106,962) | – |
| Net debt | (53,014) | (91,801) |

## 29 Notes to the consolidated statement of cash flows *(Continued)*

### (c) Net debt reconciliation *(Continued)*

| | | Liabilities from financing activities | | |
|---|---|---|---|---|
| | Cash | Borrowings | Convertible notes | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Net debt as at 1 January 2016** | 55,194 | (143,500) | – | (88,306) |
| Cash flows | 2,899 | (6,500) | – | (3,601) |
| Foreign exchange adjustments | 106 | – | – | 106 |
| **Net debt as at 31 December 2016** | 58,199 | (150,000) | – | (91,801) |
| Cash flows | **137,141** | **10,010** | **(98,778)** | **48,373** |
| Impact of cost of issuing convertible notes | **–** | **–** | **(2,646)** | **(2,646)** |
| Foreign exchange adjustments | **(1,402)** | **–** | **1,483** | **81** |
| Other non-cash movements | **–** | **–** | **(7,021)** | **(7,021)** |
| **Net debt as at 31 December 2017** | **193,938** | **(139,990)** | **(106,962)** | **(53,014)** |

## 30 Related-party transactions

The Company's immediate holding company is China Civil Aviation (Cayman) Investment Group Limited ("CCA"), which acquired 65.20% shares of the Company in issue on 30 December 2016 and its ultimate holding company is HNA Group Co., Ltd. The non-controlling interests is Hubei Three Gorges Tobacco Co., Ltd. ("Hubei Three Gorges"), which holds 17.14% share of Hubei Golden Three Gorges Printing Industry Co., Ltd., a subsidiary of the Company.

In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

| Name of related party | Relation |
|---|---|
| CCA | Immediate holding company |
| Hubei Three Gorges | Non-controlling shareholder |

## 30 Related-party transactions *(Continued)*

### (a) Transactions with related parties

The following transactions are carried out by the Group with related parties:

(i) Key management compensation

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| Key management compensation | **603** | 796 |

(ii) Borrowings from immediate holding company

| | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|
| CCA | **2,463** | – |

### (b) Balances with immediate holding company

The Group has the following balances with its immediate holding company as at 31 December 2017 and 2016:

Payables to immediate holding company *(note 23)*

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| CCA | **2,463** | – |

The payables bear no interest and are repayable on demand.

## 31 Benefits and interests of directors

### Directors, supervisors and chief executives' emoluments

The remuneration of every director, the Chairman and the independent non-executive directors of the Company for the year ended 31 December 2017 and 2016 is set out below:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | | |
| Name | Fees RMB'000 | Total RMB'000 | Fees RMB'000 | Salary RMB'000 | Retirement benefits RMB'000 | Total RMB'000 |
| **Chairman** | | | | | | |
| Mr. Li Tie *(note i)* | 88 | 88 | – | – | – | – |
| Mr. Yang Yoong An *(note ii)* | – | – | 105 | – | – | 105 |
| **Executive directors** | | | | | | |
| Mr. Liu Daoqi *(note i)* | 88 | 88 | – | – | – | – |
| Mr. Huang Erwei *(note i)* | 88 | 88 | – | – | – | – |
| Mr. Feng Bin *(note iii)* | – | – | 105 | 110 | 36 | 251 |
| **Non-executive director** | | | | | | |
| Mr. Yang Yoong An *(note ii)* | – | – | – | – | – | – |
| Mr. Yang Fan *(note iv)* | – | – | 105 | – | – | 105 |
| **Independent non-executive directors** | | | | | | |
| Mr. Gong Jinjun | 106 | 106 | 105 | – | – | 105 |
| Mr. Zeng Shiquan | 106 | 106 | 105 | – | – | 105 |
| Mr. Wang Ping | 127 | 127 | 125 | – | – | 125 |
| | 603 | 603 | 650 | 110 | 36 | 796 |

(i) Appointed as executive directors of the Company on 24 February 2017.

(ii) Redesigned from an executive director to a non-executive director on 17 March 2017.

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

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

## 32 Balance sheet and reserve movement of the Company

| | As at 31 December 2017 RMB'000 | As at 31 December 2016 RMB'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment in subsidiaries | 191,120 | 191,120 |
| **Current assets** | | |
| Amounts due from subsidiaries | 2,079 | 1,498 |
| Cash and cash equivalents | 96,434 | 348 |
| Prepayments | – | 203 |
| | 98,513 | 2,049 |
| **Total assets** | 289,633 | 193,169 |
| **EQUITY** | | |
| **Equity attributable to the owners of the Company** | | |
| Share capital | 2,382 | 2,382 |
| Reserves | 216,251 | 216,473 |
| Accumulated losses | (52,808) | (37,617) |
| **Total equity** | 165,825 | 181,238 |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Convertible notes | 106,962 | – |
| **Current liabilities** | | |
| Trade and other payables | 792 | 1,651 |
| Amount due to subsidiaries | 16,054 | 10,280 |
| | 16,846 | 11,931 |
| **Total liabilities** | 123,808 | 11,931 |
| **Total equity and liabilities** | 289,633 | 193,169 |

The balance sheet of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf by:

| | |
|---|---|
| **Li Tie** | **Huang Erwei** |
| *Executive Director* | *Executive Director* |

## 32 Balance sheet and reserve movement of the Company *(Continued)*

| | Share capital | Share premium | Special reserve | Accumulated losses | Translation reserve | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Balance at 1 January 2016** | 2,382 | 25,200 | 191,120 | (33,299) | (947) | 184,456 |
| Loss for the year | – | – | – | (4,318) | – | (4,318) |
| Other comprehensive income | – | – | – | – | 1,100 | 1,100 |
| **Balance at 31 December 2016** | 2,382 | 25,200 | 191,120 | (37,617) | 153 | 181,238 |
| **Balance at 1 January 2017** | **2,382** | **25,200** | **191,120** | **(37,617)** | **153** | **181,238** |
| Loss for the year | **–** | **–** | **–** | **(15,191)** | **–** | **(15,191)** |
| Other comprehensive loss | **–** | **–** | **–** | **–** | **(222)** | **(222)** |
| **Balance at 31 December 2017** | **2,382** | **25,200** | **191,120** | **(52,808)** | **(69)** | **165,825** |

# FIVE-YEAR FINANCIAL SUMMARY

## Consolidated Results

| | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|---|---|
| Revenue | **530,000** | 516,074 | 495,089 | 472,861 | 495,773 |
| Gross profit | **117,151** | 103,314 | 99,974 | 136,254 | 157,922 |
| Profit for the year | **6,305** | 4,634 | 4,065 | 12,894 | 43,664 |

## Consolidated Assets, Liabilities and Equity

| | | | 31 December | | |
|---|---|---|---|---|---|
| | 2017<br>RMB'000 | 2016<br>RMB'000 | 2015<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| **Assets** | | | | | |
| Current assets | **617,488** | 498,086 | 525,237 | 467,385 | 365,633 |
| Non-current assets | **164,180** | 190,838 | 207,258 | 194,142 | 203,117 |
| Total assets | **781,668** | 688,924 | 732,495 | 661,527 | 568,750 |
| **Liabilities** | | | | | |
| Current liabiliites | **440,014** | 454,291 | 502,755 | 397,062 | 443,879 |
| Non-current liabilities | **106,962** | 4,043 | 3,896 | 3,111 | 61,866 |
| Total liabilities | **546,976** | 458,334 | 506,651 | 400,173 | 505,745 |
| **Equity** | | | | | |
| Total equity | **234,692** | 230,590 | 225,844 | 261,354 | 63,005 |