Mengke Holdings Limited

盟 科 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1629

LEADING IN INNOVATION
STRIVING FOR EXCELLENCE

Annual Report 2017

CONTENTS

CORPORATE INFORMATION

Name of directors
Mr. Zhang Weixiang
(Chairman and non-executive Director)
Mr. Fu Mingping
(Executive Director)
Mr. Cheng Tai Kwan Sunny
(Independent non-executive Director)
Mr. Tan Yik Chung Wilson
(Independent non-executive Director)
Mr. Yick Ting Fai Jeffrey
(Independent non-executive Director)

Registered office
P.O. Box 10008, Willow House
Cricket Square
Grand Cayman KY1–1001
Cayman Islands

Headquarters and principal place of business in the PRC
No. 15 Shantou Road
Yichang High-Tech Zone
Hubei Province
PRC

Principal place of business in Hong Kong
Room A, 17th Floor
Capitol Centre Tower II
28 Jardine's Crescent
Causeway Bay
Hong Kong

Company's website
www.mengkeholdings.com
(Note: the information contained in this website does not form part of this report)

Company secretary
Mr. Lau Ka Ming

Authorised representatives (for the purpose of the Listing Rules)
Mr. Zhang Weixiang
Mr. Lau Ka Ming

Audit committee
Mr. Tan Yik Chung Wilson *(Chairman)*
Mr. Cheng Tai Kwan Sunny
Mr. Yick Ting Fai Jeffrey

Remuneration committee
Mr. Yick Ting Fai Jeffrey *(Chairman)*
Mr. Cheng Tai Kwan Sunny
Mr. Fu Mingping

Nomination committee
Mr. Cheng Tai Kwan Sunny *(Chairman)*
Mr. Tan Yik Chung Wilson
Mr. Fu Mingping

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

Hong Kong branch share registrar
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers
China Merchants Bank, Yichang Branch
Bank of China Limited, Yichang Dongshan Branch

Compliance adviser
RaffAello Capital Limited
Room 2002, 20/F
Tower Two, Lippo Centre
89 Queensway, Hong Kong

Legal adviser as to Hong Kong laws
ONC Lawyers
19th Floor
Three Exchange Square
8 Connaught Place
Central, Hong Kong

Auditor
PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Stock code
1629

Dear Shareholders,

On behalf of the board of directors (the "Board" or the "Director(s)") of Mengke Holdings Limited (the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present the annual report of the Group for the year ended 31 December 2017 (the "Year").

For the Year, the Group's revenue was approximately RMB238.3 million, representing a year-on-year decrease of approximately 23.3%. Gross profit amounted to approximately RMB44.9 million, representing a year-on-year decrease of approximately 30.4%. Gross profit margin was approximately 18.9%. Profit for the year amounted to approximately RMB4.7 million.

In 2017, China's gross domestic product expanded by 6.9%, which exceeded the government's full-year target of 6.5% and reversed a downward growth trend for the first time since 2010. Despite a decrease of 1.4% in production volume, the industry-wide destocking fostered a mild recovery in the cigarette industry, with total sales volume of cigarettes in China increased by approximately 0.8% to approximately 47.38 million boxes.

The PRC government has enacted various legislation on tobacco control in recent years, including prohibition of smoking in indoor public places, stricter advertisements for the tobacco products, required warnings on packaging and labelling, among others. Such initiatives, together with the increasing consumption power of smokers, technology upgrades in cigarette packaging and a shift of demand to cigarette brands with better reputation, taste, quality and packaging, are expected to bring more business opportunities to the Group in the long run.

Despite the challenges faced in 2017, the Group continued to devote resources to research and development so as to improve operational efficiency and product quality, provide a wider range of product offering and upgrade technology level. During the Year, the Group invested RMB7.64 million in research and development. Currently, the Group has 13 registered patents, consisting of seven utility patents and six invention patents, and three pending invention patent registrations.

The Group had made an effort to further improve its sales and marketing. The Group has a team of 13 sales representatives. During the Year, the Group had won six new tender bids and entered new markets such as Sichuan Province with the launch of five new products, while strengthening the relationships with its existing customers.

Looking ahead, the tobacco industry is stabilising and cigarette production volume in China is expected to remain above 47.3 million boxes in the near future. Optimising structure will become a major goal of the industry, with a view to maintaining steady growth in cigarette sales. The Group will adjust to the constant market changes and the demand shift to mid to high-end products, and formulate corresponding strategies to drive up sales and marketing. The Group will continue to extend its footprints to new markets such as Guangdong Province and Chongqing City as well as enhancing its research and development capabilities by adopting new technologies, techniques and materials. Furthermore, the Group will reinforce the business relationships with the existing customers by further improving its after-sales and value-added services to accommodate customers' needs.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to express my gratitude to the continuous support of all shareholders, investors, business partners and customers. The management team and all staff members of the Group will continue striving for excellence and to create better value for the shareholders of the Company.

Zhang Weixiang
Chairman and Non-executive Director

Hong Kong, 28 March 2018

The Group is principally engaged in the production of metallised packaging paper for cigarette package manufacturers, having an operating history of more than 10 years, with two main lines of products, being transfer metallised paper and laminated metallised paper. The customers of the Group include some of the "Top 100 Enterprises" in the printing industry awarded by the 2016 China Printing Manager Annual Conference, including Hubei Golden Three Gorges Printing Industry Co., Ltd. and other leading cigarette package manufacturers in China, such as Beijing Leigh-mardon Pacific Packaging Co., Ltd., Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited.

BUSINESS REVIEW

Sales and Marketing

During the Year, the Group continued to expand into new market in China, such as Sichuan Province, and had won six out of seven tenders submitted. However, the "Action Plan on Key Mission of Three Eliminations, One Decrease and One Addition (2016–2018)" issued by the State Tobacco Monopoly Administration of the PRC triggered an industry-wide destocking. The Action Plan requires that the total amount of national tobacco stocks must not exceed 50 million boxes by the end of 2017. Consequently, there was a significant decrease in the year-end stocking of the customers. The lower demand and the decrease in unit price of both transfer metallised paper and laminated metallised paper thus led to a drop in the revenue of the Group.

The Group had a total of 13 sales representatives to formulate marketing strategies, devise marketing plan, manage sales business, arrange for logistics and develop customer service model during the Year. The Group places strong emphasis on customer satisfaction and its marketing team provides full services from product development, order protection and market maintenance, to after-sales and technical services. The sales representatives pay monthly visits to customers, as well as organise half-yearly customer satisfaction survey to better understand customers' needs and to collect feedback.

Production Capacity

The Group operates and owns one production facility located in Yichang, Hubei Province in China with an aggregate gross floor area of approximately 10,800 sq.m.

The below table sets forth the production efficiency and utilisation rates of the production base for the year ended 31 December 2017, together with the comparative figures for the corresponding period of last year. The actual production volume in the reporting period reduced by approximately 22.6% as compared with that of 2016, which was primarily due to lower sales volume of the Group and resulted in a reduction in the utilisation rate.

	Year ended 31 December	
	2017	2016
Production capacity (thousand metres)	**222,264**	222,264
Actual production volume (thousand metres)	**112,577**	145,433
Utilisation rate	**50.7%**	65.4%

The Group has employed part of the net proceeds raised from the listing (the "Listing") of the shares of the Company (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 November 2016 (the "Listing Date") to upgrade the production facilities and expand capacity. The new plants and buildings are expected to be in used in 2018. Details on the use of net proceeds from the Listing are set out below in the section headed "Use of Net Proceeds from the Listing" in this report.

Quality Control

As at 31 December 2017, the Group had a total of 11 quality control staff. It purchased specialty equipment imported from various countries to advance the quality control procedures of the Group.

The Company is awarded with the certification and has passed the third party audit of environmental and occupational health safety management system in accordance with ISO14001:2015 and GB/T28001-2011.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the revenue was approximately RMB238.3 million (2016: approximately RMB310.7 million), representing a decrease of approximately 23.3% as compared with that in 2016. The decrease in revenue was the result of (i) lower demand for the products of the Group; (ii) the decrease in unit price of both transfer metallised paper and laminated metallised paper; and (iii) decrease in processing service income due to its ad-hoc in nature.

The following table sets forth the breakdown of the Group's revenue for the years ended 31 December 2017 and 2016:

	Year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	%
Sales of cigarette packaging products:			
— transfer metallised paper	**224,528**	276,976	–18.9%
— laminated metallised paper	**13,737**	29,823	–53.9%
Processing service income	**45**	3,909	–98.8%
Total	**238,310**	310,708	–23.3%

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately 30.4% from approximately RMB64.6 million for the year ended 31 December 2016 to approximately RMB44.9 million for the year ended 31 December 2017 due to the decrease in revenue. The gross profit margin decreased from approximately 20.8% to approximately 18.9%.

Other Income and Other Gains — Net

For the year ended 31 December 2017, the Group's other income and other gains comprised sales of raw materials and waste materials, rental income, subsidy income and exchange gains. Other expenses and other losses comprised cost of raw materials and waste materials sold and cost of rental. The net of other income and other gains increased from approximately RMB33,000 in 2016 to approximately RMB5.9 million in 2017, primarily because the Group had received government grants of approximately RMB5.3 million.

Distribution Expenses

For the year ended 31 December 2017, distribution expenses consisted of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) other expenses. The distribution expenses were approximately RMB18.0 million in 2017, as compared to approximately RMB17.9 million in 2016.

Administrative Expenses

For the year ended 31 December 2017, administrative expenses consisted of (i) staff costs; (ii) research and development expenses; (iii) depreciation and amortisation; (iv) entertainment expenses; (v) other taxes and surcharges; and (vi) other expenses. Administrative expenses decreased from approximately RMB52.2 million in 2016 to approximately RMB25.9 million in 2017. The decrease in administrative expenses of the Group was mainly due to the absence of the one-off listing expenses for the Year (2016: approximately RMB26.1 million).

Finance Expenses — Net

For the year ended 31 December 2017, net finance expenses represented the net amount of finance income and finance expenses. Finance income consisted of interest income from bank deposits. Finance expenses consisted of interest expenses from bank borrowings and exchange losses. The net finance expenses were approximately RMB549,000 in 2017, as compared to approximately RMB1.1 million in 2016. The decrease in net finance expenses was mainly due to the decrease in interest expenses from bank borrowings.

Income Tax Expense

The Group's income tax expense decreased by approximately 40.4% from approximately RMB2.8 million in 2016 to approximately RMB1.7 million in 2017, which was mainly due to the drop in profit before tax for the year ended 31 December 2017 excluding the one-off listing expenses in 2016, most of which were not deductible for tax purpose.

Profit/(Loss) Attributable to Equity Holders of the Company

For the year ended 31 December 2017, the Group's profit attributable to equity holders of the Company was approximately RMB4.7 million (loss attributable to equity holders of the Company in 2016: approximately RMB9.4 million). The profit turnaround was mainly attributable to the absence of the one-off listing expenses for the year ended 31 December 2017.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB67.9 million as at 31 December 2017, while the net current assets as at 31 December 2016 was approximately RMB61.7 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 31 December 2017 were approximately RMB15.0 million (2016: approximately RMB20.0 million). The Group's gearing ratio decreased from approximately 22.3% as at 31 December 2016 to approximately 14.6% as at 31 December 2017. The decrease of gearing ratio was mainly due to an increase in total equity and a decrease in borrowings and amounts due to related parties as at 31 December 2017. Gearing ratio was calculated by dividing total debt (which consisted of borrowings and amounts due to related parties) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the year ended 31 December 2017, the Group's total capital expenditure amounted to approximately RMB3.9 million, which was mainly used in the purchase of office equipment and assets under construction.

Treasury Policies

The Group adopts a prudent approach in respect of treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

Capital Structure

The capital structure of the Group consists of equity attributable to owners of the Company, which comprises issued share capital and reserves and short term bank borrowings repayable within one year.

Charge on Assets

The Group's borrowings and notes payables were secured by its prepaid operating lease, property, plant and equipment, restricted cash and trade receivables. The following table sets forth the carrying amounts of assets pledged to secure the borrowings and notes payables:

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Prepaid operating lease	**12,104**	12,441
Property, plant and equipment	**23,725**	25,325
Trade receivables	**17,047**	29,420
Restricted cash	**38,719**	48,123
Total	**91,595**	115,309

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

There were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the year ended 31 December 2017 (2016: same).

Contingent Liabilities

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

Foreign Exchange Risk

The Group's transactions were mainly conducted in Renminbi ("RMB"), the functional currency of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, amounts due from a related party and other payables maintained in Hong Kong dollars ("HK$"). 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 (2016: same).

Human Resources and Remuneration

As at 31 December 2017, the Group employed 158 employees (2016: 176) with total staff costs of approximately RMB15.9 million incurred for the same year (2016: approximately RMB17.0 million). The decrease of staff costs of the Group was mainly due to the decrease in number of administrative staff. The Group's remuneration packages are generally structured with reference to prevailing market conditions and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2017 (2016: nil).

Use of Net Proceeds from the Listing

The Shares were listed on the Stock Exchange on 25 November 2016. Out of the net proceeds from the Listing of approximately HK$42.2 million (equivalent to approximately RMB37.6 million) (after deducting underwriting commissions and related expenses), part of the proceeds has been used in plant electricity distribution work, purchase of production equipment, improvement work relating to the air-conditioning system and investment in operation, market expansion and technical development as disclosed in the prospectus of the Company dated 15 November 2016 (the "Prospectus"). For more details, please refer to the section headed "Use of Net Proceeds from the Listing" in this report.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or elsewhere in this report, there is no other plan for material investments or capital assets as at 31 December 2017.

Capital Commitments

As at 31 December 2017, the Group did not have any capital commitments (2016: same).

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.

PRINCIPAL RISKS AND UNCERTAINTIES

The following are some principal risks and uncertainties facing the Group, which may pose material and adverse effects on its business, financial condition or results of operations:

Increasingly Regulated Industry

The PRC tobacco industry is becoming increasingly regulated and the business of the Group is subject to various industry requirements. In 2014, the State Tobacco Monopoly Administration (中國國家煙草專賣局) published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. The Group's products are primarily used for mid to high-end cigarette brands in tier 1 to tier 3.

The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce cigarette manufacturers' spending on the PRC cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for cigarette products or result in increased competition among cigarette packaging paper manufacturers and drive down the selling prices of cigarette products.

PRC Legislative Control and Awareness of Health Concerns

In recent years, the PRC government has promulgated a series of legislative and regulatory control on the cigarette industry including the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which aims to tighten the control of the Chinese cigarette industry and to curb the demand for cigarette consumption due to concern for public health. Such tightened legislative and regulatory control includes regulations limiting smoking in public areas, prohibition on certain types of tobacco advertising, as well as labelling requirements for cigarette packages.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in China and the sales of cigarette packaging paper.

Intense Competition

Due to industry restructuring and consolidation, the number of cigarette manufacturers in China has decreased over the years. In 2015, 29 key cigarette brands contributed approximately 93.9% of total cigarette sales revenue in China, and further consolidation is expected in the future. This creates greater competition between the cigarette brands remaining in the market and increases the competition among cigarette manufacturers. In the event that further restructuring or consolidation takes place among cigarette manufacturers in China, the number of cigarette manufacturers and cigarette brands will further reduce, resulting in a more competitive market for cigarette package manufacturers and ultimately affecting the cigarette packaging paper market.

Reliance on Major Customers

For the years ended 31 December 2016 and 2017, revenue from the five largest customers amounted to approximately RMB289.3 million and approximately RMB208.6 million respectively, which accounted for approximately 93.1% and approximately 87.3% of the total revenue for the respective periods.

In order to reduce such reliance and widen its customer base, the Group plans to proactively expand into new markets such as Guangdong Province and Chongqing City of China, and thereby lessening the risk of concentration on income sources.

KEY PERFORMANCE INDICATORS ("KPIs") WITH THE STRATEGIES OF THE GROUP

The Group sets a number of KPIs to support the delivery of its strategies with its performance as below:

Strategy	KPIs	Performance
Maximise value for the Shareholders	Gross profit margin = 18.9% (2016: 20.8%)	The Group has maintained a relatively stable operational performance in 2017 with effective cost control measures and has continued to expand into new markets.
Improve the Group's liquidity	Cash and cash equivalents = RMB14.8 million (2016: RMB23.8 million) Current ratio = 1.3 (2016: 1.3) Gearing ratio = 14.6% (2016: 22.3%)	The Group has adopted a policy to regularly monitor the liquidity requirements of the Group and the Group's compliance with lending covenants so as to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet the liquidity requirements of the Group in the short and long term.
Strive for the "zero harm" safety goal	Accident rate = 0% (2016: 0%)	The Group has put adequate resources and efforts to uphold and improve its safety management system to reduce its risks related to safety issues. The Company has maintained its safety certification from OHSAS18000, which is an international standard setting out requirements for an occupational health and safety management system.

FUTURE OUTLOOK

Looking forward, it is anticipated that China's economic growth will remain stable and the tobacco sector in the country will continue to undergo industry upgrades. The Group is optimistic about the long-term development of the cigarette packaging industry as new opportunities are emerging. The Group intends to solidify its existing markets while continuing to explore new ones, in particular, Guangdong Province and Chongqing City. In preparation of the peak season in the second half of the year, the Group will step up its efforts in sales and marketing. Meanwhile, the Group plans to proactively join the upcoming tender biddings in 2018, with an objective to obtaining new orders and new customers.

In support of the anticipated business growth, the Group intends to upgrade its production facilities by purchasing new manufacturing machines, as well as to expand its warehouses and other ancillary facilities. The Group plans to take such initiatives in order to enhance its production and capacity efficiency, and thereby elevate its product quality and competitiveness.

The Group endeavours to make good use of the net proceeds from the Listing to invest in various aspects of the Group's business such as operation, marketing and technical development in the direction of further enhancing the Group's competitive advantages and thus maximising value for shareholders.

The Directors are pleased to present to the shareholders of the Company (the "Shareholders") this report together with the audited consolidated financial statements for the year ended 31 December 2017 (the "Year").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is a cigarette packaging paper manufacturer in the PRC primarily engaged in the manufacture of metallised packaging paper for sale to cigarette package manufacturers in the PRC. Details of the principal activities and other particulars of the Company's subsidiaries are set out in note 11 to the consolidated financial statements in this report.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 41 of this report.

SEGMENTAL INFORMATION

The segmental Information of the Group are set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business, including the likely future developments, principal risks and uncertainties facing by the Group, analysis using key financial performance indicators, is discussed under the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this report. Such discussion forms an integrate part of this report. In addition, the financial risk management objectives and policies of the Group is set out in note 3 to the consolidated financial statements.

FINAL DIVIDEND

The Board proposed not to declare any final dividend for the Year (2016: nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Friday, 25 May 2018 (the "2018 AGM").

For the purpose of determining Shareholders who are entitled to attend and vote at the 2018 AGM, the register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018 (both days inclusive), during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2018 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 18 May 2018.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 87.3% (2016: 93.1%) of the total sales for the Year and the sales attributable to the largest customer included therein accounted for approximately 32.2% of the total sales for the Year (2016: 34.2%).

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 59.6% (2016: 49.2%) of the total purchases for the Year and the purchase attributable to the largest supplier included therein accounted for approximately 18.3% of the total purchases for the Year (2016: 18.7%).

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.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its customers and enhancing co-operation with its business partners.

The Group maintains a very stable and experienced management team and places great emphasis on training its employees such as by providing induction training for new employees, on-the-job training, team building training and external training. The Group also organized various social activities occasionally to create a harmonious working environment for the employees.

During the Year, the Group maintained good relationship with its customers and generally maintained a high contract renewal rate with the ten largest customers to keep abreast of market development and potential business opportunities.

The Group has maintained stable and long-established business relationships with its major suppliers. We do not foresee any difficulty in procurement nor experienced any production disruption due to shortage of raw materials.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements in this report.

BORROWINGS

Details of borrowings of the Group as at 31 December 2017 are set out in note 24 to the consolidated financial statements in this report.

SHARE CAPITAL

Details of the movement of the Company's share capital are set out in note 22 to the consolidated financial statements in this report.

SUMMARY FINANCIAL INFORMATION

A five-year financial summary of the results and the assets and liabilities of the Group is set out on page 94 of this report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company on the Exchange, by private arrangement or by way of a general offer throughout the Year.

RESERVES

Movements in the reserves of the Company and the Group during the Year are set out in note 29 and note 23 to the consolidated financial statements in this report respectively.

USE OF NET PROCEEDS FROM THE LISTING

The Company listed its shares on the Stock Exchange on 25 November 2016. Net proceeds from the Listing (after deduction of the underwriting commission and relevant expenses) were approximately HK$42.2 million (equivalent to approximately RMB37.6 million), which has been applied in the manner as disclosed in the Prospectus.

As at 31 December 2017, the net proceeds from the Listing has been utilised as follows:

Use of net proceeds from the Listing	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus	Approximate% of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2017	Balance as at 31 December 2017
	RMB'000		*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,500	19,803
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,170	4,468
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–
Working capital and general corporate purposes	3,758	10%	3,758	–
	37,585	100%	13,314	24,271

As at 31 December 2017, unutilised proceeds amounted to approximately HK$30.0 million (equivalent to approximately RMB24.3 million), which will be invested in production plant, equipment upgrade and technique development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan as to use of net proceeds.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Year, there was no connected transaction or continuing connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. Material related party transactions entered into by the Group during the Year are set out in note 28 to the consolidated financial statements in this report. These related party transactions did not constitute connected transactions or continuing connected transactions within the meaning of the Listing Rules.

DIRECTORS

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

Executive Director
Mr. Fu Mingping *(Chief Executive Officer)*

Non-executive Director
Mr. Zhang Weixiang *(Chairman)*

Independent non-executive Directors
Mr. Cheng Tai Kwan Sunny
Mr. Tan Yik Chung Wilson
Mr. Yick Ting Fai Jeffrey

Pursuant to article 108 of the articles of association of the Company (the "Articles"), at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but no less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Directors so to retire shall be (i) those who wishes to retire and not to offer himself for election; (ii) those who have not been subject to retirement by rotation in the three years preceding the annual general meeting; and (iii) those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

In accordance with the above provisions of the Articles, Mr. Zhang Weixiang and Mr. Cheng Tai Kwan Sunny will retire and, being eligible, offer themselves for re-election at the 2018 AGM.

DIRECTORS' SERVICE AGREEMENTS

The executive Director has entered into a service agreement with the Company for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

The non-executive Director has entered into a letter of appointment with the Company for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year upon the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Save as disclosed above, none of the Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are set out on pages 33 to 35 of this report.

EMOLUMENT POLICY

The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to individual performance and current market rate.

The remuneration committee of the Board is responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration, having regard to market competitiveness, individual performance and achievement. None of the Directors will determine their own remuneration.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 9 to the consolidated financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save and except for those disclosed under the paragraph headed "Connected and Related Party Transactions" above, no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or any entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the Year.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed for the Year.

DIRECTORS' INDEMNITIES AND INSURANCE

Subject to the applicable laws, every director of the Company shall be entitled to be indemnified by the Company against all costs, charges, losses, expenses and liabilities incurred by him in the execution and discharge of his duties or in relation thereto pursuant to the Articles. Such provisions were in force during the course of the Year and remained in force as of the date of this report.

RETIREMENT BENEFIT SCHEMES

Details of the employer's costs charged to the consolidated profit or loss for the Year and the retirement benefit schemes of the Group are set out in note 9 to the consolidated financial statements in this report.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the Company's distributable reserves as at 31 December 2017 amounted to approximately RMB92.1 million.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, the following Director or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

Interests in the Company

Name	Nature of Interest	Number of Shares held (long position)	Approximate percentage of interests
Mr. Zhang Weixiang *(Note)* ("Mr. Zhang")	Interest in a controlled corporation	281,252,000 (L)	56.25%

Note: Mr. Zhang beneficially owns 76% of the issued share capital of Happily Soar Limited. Therefore, Mr. Zhang is deemed, or taken to be, interested in the same number of the Shares held by Happily Soar Limited for the purpose of the SFO. Mr. Zhang is the sole director of Happily Soar Limited.

Interests in Associated Corporation of the Company

As at 31 December 2017, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Capacity	Number of Shares held	Approximate percentage of interests
Mr. Zhang	Happily Soar limited	Beneficial owner	76	76%
Mr. Fu Mingping	Happily Soar limited	Beneficial owner	18	18%

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as is known to the Directors, as at 31 December 2017, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or shorts positions in the shares, underlying shares or debentures of the Company which would fall 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 which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity	Number of Shares held long position	Approximate percentage of interests
Happily Soar Limited	Beneficial owner	281,252,000	56.25%
Ms. Huang Feixia	Interest of spouse *(Note 1)*	281,252,000	56.25%
Liberal Rite Limited	Beneficial owner	93,748,000	18.75%
Mr. Shiu Kwok Kuen ("Mr. Shiu")	Interest in a controlled corporation *(Note 2)*	93,748,000	18.75%
Ms. Lai Pik Chu	Interest of spouse *(Note 2)*	93,748,000	18.75%
Shareholder Value Fund	Beneficial owner	45,704,000	9.14%
CM Asset Management (Hongkong) Company Limited	Investment manager	45,704,000	9.14%

Note:

1. Mr. Zhang beneficially owns 76% of the issued share capital of Happily Soar Limited. Therefore, Mr. Zhang is deemed, or taken to be, interested in the same number of shares held by Happily Soar Limited for the purpose of the SFO. Ms. Huang Feixia is the spouse of Mr. Zhang and is deemed to be interested in all the Shares in which Mr. Zhang is interested.

2. Mr. Shiu beneficially owns the entire issued share capital of Liberal Rite Limited. Therefore, Mr. Shiu is deemed, or taken to be, interested in the same number of shares held by Liberal Rite Limited for the purpose of the SFO. Mr. Shiu is the sole director of Liberal Rite Limited. Ms. Lai Pik Chu is the spouse of Mr. Shiu and is deemed to be interested in all the Shares in which Mr. Shiu is interested.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall 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 which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was conditionally adopted by the written resolutions of all Shareholders passed on 3 November 2016. As of the date of this report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme.

Purpose of the Scheme

The purpose of the Scheme is to enable the Group to grant options to the eligible participants as incentive or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high-caliber employees and attract human resources that are valuable to the Group or any entity in which any member of the Group holds any equity interest (the "Invested Entity").

Qualifying Participants

Subject to the provisions in the Scheme, the Board shall be entitled but shall not be bound at any time within a period of 10 years commencing from the date of adoption of the Scheme to make an offer to any person belonging to the following classes:

(i) any employee (whether full time or part time, including the Directors (including any non-executive Director and independent non-executive Director)), any of its subsidiaries or any Invested Entity;

(ii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iii) any customer of any member of the Group or any Invested Entity;

(iv) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;

(v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of the Directors has contributed or will contribute to the growth and development of the Group; and

(vii) any other group or class of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.

Maximum Number of the Shares

The maximum number of the Shares in respect of which options may be granted under the Scheme and under any other share option schemes of the Company (excluding, for this purpose, Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Scheme or any other share option scheme of the Company) must not in aggregate exceed 10% of the total number of Shares in issue as at Listing Date, being 50,000,000 Shares. The Company may, subject to the issue of a circular, the shareholders' approval in general meeting and/or such other requirements prescribed under the Listing Rules, refresh this limit at any time to 10% of the Shares in issue as at the date of the shareholders' approval and/or grant options beyond the 10% limit to eligible participants specifically identified by the Board. The above is subject to the condition that the maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

Maximum Entitlement of Each Eligible Participant

The total number of the Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular, the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules.

Time of Acceptance and Exercise of an Option

The options granted under the Scheme may remain open for acceptance for a period of up to 21 days from the date on which the options are offered to an eligible participants. Upon acceptance of the option, the eligible person shall pay HK$1 to the Company as consideration for the grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Scheme; and (ii) the date falling 10 years from the offer date of that option.

Subscription Price for Shares

The subscription price in respect of any option granted under the Scheme shall be at the discretion of the Directors, save that such price shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for trade in one or more board lots of the Shares on the offer date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors or any of their respective associates had any interest in a business which competes or is likely compete, either directly or indirectly, with the business of the Group.

CONTROLLING SHAREHOLDERS' INTEREST

There were no contracts of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries nor any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries.

DEED OF NON-COMPETITION

The deed of non-competition dated 14 November 2016 has been entered into by Happily Soar Limited and Mr. Zhang Weixiang, the controlling shareholders of the Company within the meaning of the Listing Rules (collectively the "Controlling Shareholders") in favour of the Company regarding certain non-competition undertakings given by the Controlling Shareholders in favour of the Company. The details of the deed of non-competition have been disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus.

Each of the Controlling Shareholders has given an annual declaration to the Company confirming that he/it has complied with the non-compete undertakings provided to the Company under the said deed of non- competition. The independent non-executive Directors have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied for the Year.

CORPORATE GOVERNANCE

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance shareholders' value. Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of the environment and communities in which it operates. The Company sees sustainable development as the key for a corporation to succeed and therefore, it aims to seek a win-win situation for the Group, society and environment by balancing between the creation of economic value and the impact on the environment.

In order to meet the requirements of the PRC government and clients and establish positive corporate image, the Group has formulated environmental protection policies and guidelines to enhance its environmental protection management, including forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of environmental protection policies and guidelines. For further information about the Company's environmental performance during the Year, please refer to the Company's separate Environmental, Social and Governance Report to be issued by the Company. The report will be available on the Stock Exchange's website (www.hkexnews.hk) and the Company's website after its publication.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group and its activities are subject to requirements under various laws. These include, among others, the Environmental Protection Law of the People's Republic of China《中華人民共和國環境保護法》, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise《中華人民共和國環境噪聲污染防治法》, Law of the People's Republic of China on Appraising of Environment Impacts《中華人民共和國環境影響評價法》, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes《中華人民共和國固體廢物污染環境防治法》 and Decision of the State Council on Several Issues Concerning Environmental Protection 《國務院關於環境保護若干問題的決定》. The Company seeks to ensure compliance with these requirements through various measures such as internal controls, training and oversight of various business units at different levels of the Group. The Group highly values the importance of ensuring compliance with applicable legal and regulatory requirements.

During the Year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws, rules and regulations by the Group that have a significant impact on the operations of the Group.

AUDIT COMMITTEE

The Company established the audit committee of the Board on 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Tan Yik Chung Wilson (as chairman), Mr. Cheng Tai Kwan Sunny and Mr. Yick Ting Fai Jeffrey.

The consolidated financial statements of the Group for the Year together with the notes attached thereto have been reviewed by the Audit Committee.

DONATIONS

No charitable donations was made by the Group during the Year.

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 available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at 31 December 2017 and up to the date of this report.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

The Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2017 and up to the date of this report.

AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Zhang Weixiang
Chairman and non-executive Director

Hong Kong, 28 March 2018

OVERVIEW

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance Shareholders' value. The Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the Year.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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, each of them confirmed that he has complied in full with the Model Code for the Year.

THE BOARD OF DIRECTORS

The Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors. The main functions of the Board include the approval of the Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of the Company as well as overseeing the corporate governance functions of the Company.

The Board comprises the following Directors:

Executive Director
Mr. Fu Mingping *(Chief Executive Officer)*

Non-executive Director
Mr. Zhang Weixiang *(Chairman)*

Independent non-executive Directors
Mr. Cheng Tai Kwan Sunny
Mr. Tan Yik Chung Wilson
Mr. Yick Ting Fai Jeffrey

The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

In accordance with the provisions of the Articles, Mr. Zhang Weixiang and Mr. Cheng Tai Kwan Sunny will retire and, being eligible, offer themselves for re-election at the 2018 AGM.

There are no financial, business, family or other material relationships among the Directors. The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this report.

In compliance with 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 Company considers that all the three independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgement. The Directors are experienced in a range of corporate and industry expertise. Amongst the three independent non-executive Directors, Mr. Cheng Tai Kwan Sunny and Mr. Tan Yik Chung Wilson have the appropriate professional qualifications or accounting or related financial management expertise as 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, funding and performance, as well as corporate governance practices. 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 provision D3.1 of the CG Code. As at the date of this 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 CG 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") of the Board (collectively, the "Board Committees"). Further details of the Board Committees are set out below.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors will receive 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.

Pursuant to the provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During the Year, all Directors have participated in continuous professional development to develop and refresh their knowledge and skills in relation to their contribution to the Board. The individual training record of each Director received during the Year is summarised below:

Name of Directors	Attending training course(s)/ reading materials
Mr. Fu Mingping	✓
Mr. Zhang Weixiang	✓
Mr. Cheng Tai Kwan Sunny	✓
Mr. Tan Yik Chung Wilson	✓
Mr. Yick Ting Fei Jeffrey	✓

BOARDING ATTENDANCE

Provision A.1.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication. The Board will schedule to have at least four regular meetings in a year. Other board meetings will be held if necessary.

During the Year, the Board convened four Board meetings and the Company convened an annual general meeting ("2017 AGM"). The attendance records of the respective Directors are set out below:

	Attendance/Number of meetings	
	Board meetings	2017 AGM
Mr. Fu Mingping	4/4	1/1
Mr. Zhang Weixiang *(chairman)*	4/4	1/1
Mr. Cheng Tai Kwan Sunny	4/4	1/1
Mr. Tan Yik Chung Wilson	4/4	1/1
Mr. Yick Ting Fai Jeffrey	4/4	1/1

DIRECTORS' SERVICE AGREEMENTS

The executive Director has entered into a service agreement with the Company for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

The non-executive Director has entered into a letter of appointment with the Company for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year upon the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party in accordance with the terms thereto.

Save as disclosed above, none of the Directors has or is proposed to have an unexpired contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Provision A.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive officer should be separate and not be performed by the same individual. During the Year, Mr. Zhang Weixiang is the chairman who is primarily responsible for the strategic planning and formulation of business strategies of the Group but he would not be involved in the day-to-day management of the Group's business. Mr. Fu Mingping, the chief executive officer of the Company, is primarily responsible for the strategic planning and overall management and supervision of operations 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 9 to the consolidated financial statements in this 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 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the CG Code set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Tan Yik Chung Wilson (as chairman). Mr. Cheng Tai Kwan Sunny and Mr. Yick Ting Fai Jeffrey. The primary duties of the Audit Committee are, among others, to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by the Board.

The members of the Audit Committee should meet at least twice a year. During the Year, the Audit Committee had held four meetings, during which the Audit Committee had reviewed, inter alia, the external auditor's statutory audit scope for the Year and their independence; the consolidated financial statements of the Group for the year ended 31 December 2016 and for the six months ended 30 June 2017, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group.

The attendance records of the respective members of the Audit Committee are set out below:

	Number of meetings held during the Year
Mr. Tan Yik Chung Wilson *(chairman)*	4/4
Mr. Cheng Tai Kwan Sunny	4/4
Mr. Yick Ting Fai Jeffrey	4/4

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 3 November 2016 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and provision B1.2 of the CG Code. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Yick Ting Fai Jeffrey (as chairman) and Mr. Cheng Tai Kwan Sunny, and one executive Director, Mr. Fu Mingping. The primary duties of the Remuneration Committee are, among others, to review and approve the management's remuneration proposals, make recommendations to the Board on the remuneration packages of the Directors and senior management and ensure none of the Directors determine their own remuneration.

The members of the Remuneration Committee should meet at least once a year. During the Year, the Remuneration Committee had held two meetings, during which the Remuneration Committee had reviewed, inter alia, the remuneration packages for individual executive Directors and senior management and had made recommendations to the Board. The attendance records of the respective members of the Remuneration Committee are set out below:

	Number of meetings held during the Year
Mr. Yick Ting Fai Jeffrey *(chairman)*	2/2
Mr. Cheng Tai Kwan Sunny	2/2
Mr. Fu Mingping	2/2

NOMINATION COMMITTEE

The Company has established the Nomination Committee on 3 November 2016 with written terms of reference in compliance with provision A5.2 of the CG Code. The Nomination Committee consists of two independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny (as chairman) and Mr. Tan Yik Chung Wilson and one executive Director, Mr. Fu Mingping. The primary duties of the nomination committee are, among others, to review the structure, size and composition of the Board and, make recommendations on the selection of individuals nominated for directorships and assess the independence of independent non-executive Director.

Any member of the Nomination Committee may call for a meeting anytime when it is necessary. During the Year, the Nomination Committee had held two meetings, during which the Nomination Committee had reviewed, inter alia, the structure, size and composition of the Board and had assessed the independence of the independent non-executive Directors. The attendance records of the respective members of the Nomination Committee are set out below:

	Number of meetings held during the Year
Mr. Cheng Tai Kwan Sunny *(chairman)*	2/2
Mr. Tan Yik Chung Wilson	2/2
Mr. Fu Mingping	2/2

BOARD DIVERSITY POLICY

The Company recognizes 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' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements that give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards. The statement of the external auditor of the Company about its responsibilities on the financial statements is set out in the independent auditor's report contained in this report.

EXTERNAL AUDITOR'S REMUNERATION

The Company has engaged PricewaterhouseCoopers as its external auditor for the Year until the conclusion of the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the Year, the fee paid/payable to PricewaterhouseCoopers in respect of its services relating to the audit of the consolidated financial statements of the Company and its subsidiaries for the Year was approximately RMB1.1 million.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control of the Group and for reviewing their effectiveness in order to safeguard the Shareholders' investment and the Group's assets. Appropriate policies and 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.

Procedures have been set up for safeguarding assets against improper use or disposal, controlling over capital expenditure, maintaining proper financial and accounting records and ensuring the reliability of financial information used for business and publication. Key risks that may impact on the Group's performance are appropriately identified and managed. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis and reports to the Audit Committee at regular meetings. The Board has conducted a review of the effectiveness of the risk management and internal control system of the Group and is reasonably satisfied that the Group has fully complied with the CG Code in respect of risk management and internal controls during the Year. The systems and internal control can only provide reasonable and not absolute assurance against material misstatement or loss, rather than eliminate the risks of failure to achieve business objectives.

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 report.

COMPANY SECRETARY

The Company secretary of the Company is Mr. Lau Ka Ming, whose biography details are set out in the section headed "Biographies of Directors and Senior Management" in this report.

Mr. Lau has been informed of the requirement of the Rules 3.28 and 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.

ALTERATIONS TO THE CONSTITUTIONAL DOCUMENTS

There has been no change in the Company's constitutional documents during the Year. The amended and restated memorandum and articles of association of the Company are available on the websites of the Stock Exchange and the Company.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

The Company aims to, via its corporate governance structure, enable all the Shareholders an equal opportunity to exercise their rights in an informed manner and allow all the Shareholders to engage actively with the Company. Under the Articles, the shareholder communication policy and other relevant internal procedures of the Company, the Shareholders enjoy, among others, the following rights:

Participation at General Meetings

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Right to Put Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, 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.

Convening of EGM and Putting Forward Proposals at General Meetings

In accordance with the article 64 of the Articles, the Board may whenever it thinks fit convene 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 at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two 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 Nomination of Director

In accordance with the article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless 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 Company's principal office in Hong Kong at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong or at the Hong Kong branch share registrar of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. The period for lodgement of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven 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 seven days.

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. ZHANG Weixiang (formerly known as **ZHANG Jue**), aged 54, is the chairman of the Company and a non-executive Director. He is also a controlling shareholder of the Company. He is also a director and the chairman of the board of directors of Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司) ("**Hubei Mengke**"). Mr. Zhang is responsible for the strategic planning and formulation of business strategies of the Group.

Mr. Zhang has over 20 years of experience in the tobacco material industry. He is a director of Zhuai Huashi Fragrance Company Limited (珠海市華仕香料有限公司) and involved in the day-to-day management and operations of the company.

As at the date of this report, Mr. Zhang is the beneficial owner of 76% of the issued share capital of Happily Soar Limited, which in turn holds 281,252,000 Shares representing approximately 56.25% of the issued share capital of the Company.

EXECUTIVE DIRECTOR

Mr. FU Mingping, aged 52, is an executive Director and the chief executive officer of the Group. He is also a member of the Remuneration Committee and a member of the Nomination Committee. Mr. Fu is primarily responsible for the strategic planning and overall management and supervision of operations the Group.

Mr. Fu joined the Group in January 2010 and has been the general manager of Hubei Mengke since then. He is also a director of Hubei Mengke.

Mr. Fu has over 30 years of experience in the cigarette packaging material industry. He graduated from a course in printing engineering in Hunan University of Technology (湖南工業大學) in 2007.

As at the date of this report, Mr. Fu is the beneficial owner of 18% of the issued share capital of Happily Soar Limited, which in turn holds 281,252,000 Shares representing approximately 56.25% of the issued share capital of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHENG Tai Kwan Sunny, aged 45, is an independent non-executive Director, the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee. He is primarily responsible for giving independent advice to the Board.

Mr. Cheng obtained a degree of Bachelor of Business Administration in Accounting from The Hong Kong University of Science and Technology in November 1996 and a degree of Master of Science from The Chinese University of Hong Kong in December 2006. He completed the Kellogg-HKUST Executive MBA Program and was awarded a degree of Master of Business Administration from Northwestern University and The Hong Kong University of Science and Technology in December 2009. He obtained a Juris Doctor degree from The Chinese University of Hong Kong in November 2017. Mr. Cheng was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in July 1999 and July 2004, respectively. He was also admitted as a member of The Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) in September 2001.

Mr. Cheng has over nine years of experience in management, financial reporting and management accounting. He has been appointed as an independent non-executive director of China Sinostar Group Company Limited (formerly known as Shihua Development Company Limited) (stock code: 485) and Hua Lien International (Holding) Company Limited (stock code: 969), since July 2014 and December 2017, respectively. Since 2014, Mr. Cheng has also been a director of a company engaged in the provision of English education services in Hong Kong, and is responsible for its overall operations and management.

Mr. TAN Yik Chung Wilson, aged 48, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. He is primarily responsible for giving independent advice to the Board.

Mr. Tan obtained a diploma in Accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) in July 1992 and a degree of Master of Business Administration from Northeast Louisiana University (currently known as University of Louisiana at Monroe) in August 1997.

Mr. Tan has over 20 years of experience in auditing and accounting. He was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in January 1999 and November 2003, respectively. He is currently a practising certified public accountant in Hong Kong and a director of PKF Hong Kong Limited.

Mr. YICK Ting Fai Jeffrey, aged 33, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. He is primarily responsible for giving independent advice to the Board.

Mr. Yick obtained a degree of Bachelor of Science from The Hong Kong Polytechnic University in December 2007. He subsequently obtained a Juris Doctor degree and completed the Postgraduate Certificate in Laws (PCLL) from The Chinese University of Hong Kong in December 2009 and July 2010, respectively. Mr. Yick was admitted as a solicitor in Hong Kong in December 2012 and has been a member of The Law Society of Hong Kong since then. He was admitted as an associate member of The Hong Kong Institute of Directors in October 2015. He is currently a consultant of Cheung & Choy Solicitors.

Mr. Yick has been an independent non-executive director of China Eco-Farming Limited (stock code: 8166) since September 2014.

SENIOR MANAGEMENT

Mr. GONG Longjie, aged 53, joined the Group in March 2012 and has been the deputy general manager of Hubei Mengke since then. He is also a director of Hubei Mengke. He is primarily responsible for overseeing the financial management of the Group.

Mr. Gong has more than 25 years of experience in finance and accounting. He was awarded the qualification of senior accountant by Zhigai Group Office of Hubei Province (湖北省職改小組辦公室) in December 2001.

Mr. ZHU Jizhong, aged 54, joined the Group in January 2006 and has been the deputy general manager of Hubei Mengke since then. He is primarily responsible for overseeing the production and quality control of the Group.

Mr. Zhu completed a course in Applied Arts in Hubei Radio & TV University (湖北廣播電視大學) in December 2000.

Mr. YANG Tao, aged 39, joined the Group in March 2012 as the manager of customer services department and was appointed as the director of administration of Hubei Mengke on 1 January 2017. He is primarily responsible for overseeing the human resources and administrative management of the Group.

Mr. Yang obtained a degree of Bachelor of International Economics and Trading and a degree of Master of Business Administration from Wuhan University of Science and Technology (武漢科技大學) in June 2001 and June 2005, respectively.

Mr. LAU Ka Ming, aged 35, has been the chief financial officer and company secretary of the Company since February 2016. He is responsible for accounting and financial matters as well as company secretarial matters of the Group.

Mr. Lau obtained a degree of Bachelor of Business Administration in Accounting from The Hong Kong University of Science and Technology in November 2005. He is a fellow of The Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Mr. Lau has over 10 years of experience in auditing, accounting and financial reporting in several accounting firms and a private group of companies.

羅兵咸永道

To the Shareholders of Mengke Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Mengke Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 93, 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.

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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 is related to recoverability of trade receivables.

Key Audit Matter: Recoverability of trade receivables	How our audit addressed the Key Audit Matter
Refer to Note 4(a) (critical accounting estimates and judgements) and Note 19 to the consolidated financial statements. As at 31 December 2017, the net book value of trade receivables amounted to RMB144,534,000 (after the provision of RMB1,046,000), which approximate 45% of the Group's total assets. We focused on this area because management made subjective judgements over assessing the credit standing of the Group's customers, the timing of recognition of impairment of trade receivables and the estimation of the size of any such impairment. At each period end, management performed individual credit evaluations on all the customers. These evaluations focused on the customer's current ability to pay and settlement history, and took into account information specific to the customer as well as pertaining to the economic environment in which the customer operated. For receivables which individually assessed as not impaired, management collectively assessed the possibility of impairment taking into account of the ageing analysis and the history of bad debt losses incurred in respect of those groups of customers.	With respect to management's individual credit evaluations for the Group's customers, we evaluated and tested the key controls over credit risk management. These key controls were related to the assessment of credit standing of each of new customers as well as bi-annually assessment of each of existing customers, identification of customers with credit risks, estimation of the recoverable amount of impaired debts and the resulting impairment provisions. We determined that we could rely on these controls for the purposes of our audit. We obtained a breakdown of each individual customer recoverability assessment from management. In respect of receivables of individual customer which had not been identified by management as potentially impaired, we formed our own judgement as to whether that was appropriate based on the external evidence obtained from our independent research on publicly available information, our examination of the customers' payment records during the current year and subsequent to the year end, as well as the past credit histories in respect of the relevant counterparties. We found no material exceptions in these tests. In respect of the collective assessment, we challenged the underlying information referenced by the management through validation of the basis of management's credit risk assessment, including the ageing analysis, and comparison of the history of bad debt losses incurred with the impairment provision provided. Based on our audit procedures, we were satisfied that management's assessments were reasonable and consistent with the evidence that we obtained.

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 the Audit Committee for the Consolidated Financial Statements

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

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

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

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.

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

(Continued)

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.

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

(Continued)

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 Ho Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	6	**238,310**	310,708
Costs of sales	8	**(193,363)**	(246,114)
Gross profit		**44,947**	64,594
Other income and other gains — net	7	**5,924**	33
Distribution expenses	8	**(17,987)**	(17,947)
Administrative expenses	8	**(25,926)**	(52,217)
Operating profit/(loss)		**6,958**	(5,537)
Finance income		**543**	522
Finance expenses		**(1,092)**	(1,593)
Finance expenses — net	10	**(549)**	(1,071)
Profit/(loss) before income tax		**6,409**	(6,608)
Income tax expense	12	**(1,685)**	(2,827)
Profit/(loss) for the year		**4,724**	(9,435)
Other comprehensive income		**–**	–
Total comprehensive income/(loss) for the year		**4,724**	(9,435)
Attributable to:			
Equity holders of the Company		**4,724**	(9,435)
Earnings/(losses) per share (expressed in RMB per share)			
— Basic and diluted	13	**0.94 cents**	(2.43) cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Prepaid operating lease	*15*	**12,104**	12,441
Property, plant and equipment	*16(a)*	**37,290**	37,117
Intangible assets		**108**	128
Deferred income tax assets	*17*	**485**	1,424
		49,987	51,110
Current assets			
Inventories	*18*	**63,232**	49,317
Trade and other receivables and prepayments	*19*	**147,853**	173,717
Notes receivables	*19*	**3,499**	1,000
Amounts due from a related party	*28(d)*	**1,511**	–
Restricted cash	*20*	**38,719**	48,123
Cash and cash equivalents	*21*	**14,776**	23,833
		269,590	295,990
Total assets		**319,577**	347,100
EQUITY AND LIABILITIES			
Equity			
Share capital	*22*	**4,459**	4,459
Other reserves	*23*	**101,392**	100,892
Retained earnings		**10,823**	6,099
Total equity		**116,674**	111,450
Liabilities			
Non-current liabilities			
Deferred government grants	*16(b)*	**1,236**	1,382

	Note	As at 31 December **2017** ***RMB'000***	2016 *RMB'000*
Current liabilities			
Borrowings	*24*	**14,980**	20,000
Trade and other payables	*25*	**121,966**	120,713
Notes payables	*25*	**62,313**	88,123
Amounts due to related parties	*28(d)*	**2,086**	4,905
Current income tax liabilities		**322**	527
		201,667	234,268
Total liabilities		**202,903**	235,650
Total equity and liabilities		**319,577**	347,100

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

Fu Mingping
Director

Zhang Weixiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	–	35,929	17,129	53,058
Loss and total comprehensive loss for the year	–	–	(9,435)	(9,435)
Appropriation to statutory reserves	–	1,595	(1,595)	–
Share-based compensation reserve *(Note 23(b))*	–	500	–	500
Transactions with owners:				
— Capital contributions from the shareholders of the Company	–	62,803	–	62,803
— Deemed distributions to the then owners of a group company	–	(63,000)	–	(63,000)
— Shares issued pursuant to the initial public offering	1,115	76,918	–	78,033
— Share issuance costs	–	(10,509)	–	(10,509)
— Capitalisation issue	3,344	(3,344)	–	–
Balance at 31 December 2016	4,459	100,892	6,099	111,450
Balance at 1 January 2017	4,459	100,892	6,099	111,450
Profit and total comprehensive income for the year	–	–	4,724	4,724
Share-based compensation reserve *(Note 23(b))*	–	500	–	500
Balance at 31 December 2017	4,459	101,392	10,823	116,674

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26	**5,168**	(41,345)
Interest and other finance costs paid		**(881)**	(1,520)
Income tax paid		**(951)**	(4,561)
Net cash generated from/(used in) operating activities		**3,336**	(47,426)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,062)**	(1,840)
Purchase of intangible assets		**(94)**	–
Loans to a director		**(1,519)**	–
Government grants received		**–**	25
Net cash used in investing activities		**(3,675)**	(1,815)
Cash flows from financing activities			
Proceeds from initial public offering of shares		**–**	78,033
Professional expenses paid in connection with initial public offering of shares		**–**	(10,509)
Proceeds from borrowings		**2,000**	105,206
Repayments of borrowings		**(7,020)**	(100,206)
Changes in amounts due to related parties		**(3,555)**	(7,211)
Net cash (used in)/generated from financing activities		**(8,575)**	65,313
Net (decrease)/increase in cash and cash equivalents		**(8,914)**	16,072
Cash and cash equivalents at beginning of the year		**23,833**	7,754
Exchange (losses)/gains on cash and cash equivalents		**(143)**	7
Cash and cash equivalents at end of the year	21	**14,776**	23,833

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

1 General information

Mengke Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1–1001, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of cigarette packing materials in the People's Republic of China (the "PRC"). The ultimate parent company of the Company is Happily Soar Limited ("Happily Soar"), a company incorporated in the British Virgin Islands ("BVI") and controlled by Mr. Zhang Weixiang ("Mr. Zhang").

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 25 November 2016 (the "Listing").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

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 the Company and its subsidiaries.

2.1 Basis of preparation

(a) Compliance with HKFRS and Hong Kong Companies Ordinance

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance (Cap. 622).

(b) Historical cost convention

The consolidated financial statements have been prepared on a historical cost convention.

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Amendments to HKFRS 7 "Statement of cash flows: additional disclosure to evaluate changes in liabilities arising from financing activities"
- Amendment to HKFRS 12 "Disclosure of interest in other entities: clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information"
- Amendments to HKAS 12 "Income taxes: clarify how to account for deferred tax assets related to debt instruments measured at fair value."

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) New and amended standards adopted by the Group (Continued)

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 26(b).

(d) New standards and interpretations not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

		Effective for financial year beginning on or after
HKFRS 9	Financial instruments	1 January 2018
HKFRS 15	Revenue from contracts with customers	1 January 2018
Amendment to HKFRS 1	First time adoption of HKFRS	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts	1 January 2018 or when the entity first applies HKFRS 9
Amendment to HKAS 28	Investments in associates and joint ventures	1 January 2018
Amendments to HKAS 40	Transfers of investment property	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
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

The Group's assessment of the impact of these new standards and interpretations is set out below.

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) ***New standards and interpretations not yet effective*** *(Continued)*

HKFRS 15 Revenue from Contracts with Customers (Continued)

Nature of change (Continued)

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.

Impact

The directors of the Company are now assessing the impact of HKFRS 15 to the Group's revenue recognition policy and do not expect there will be significant changes to the Group's existing revenue recognition policy (Note 2.22).

Date of adoption

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

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

Changes on classification and measurement of financial assets and liabilities

The directors of the Company do not expect the changes on the classification and measurement models introduced by HKFRS 9 would have material impact on the Group's existing financial assets and liabilities, as they mainly comprised loans and receivables and financial liabilities at amortised costs as determined under HKAS 39 (Note 2.10), which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to continuously be initially recognised at fair value and subsequently measured at amortised cost.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet effective *(Continued)*

HKFRS 9 Financial Instruments (Continued)

Impact (Continued)

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. The directors of the Company expect the new impairment model introduced by HKFRS 9 will generally result in earlier recognition of losses compared to the current incurred loss model of HKAS 39 (Note 2.12).

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 assets and liabilities particularly in the year of the adoption of the new standard.

Date of adoption

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet effective (Continued)

HKFRS 16 Leases (Continued)

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB898,000. The Group estimates that approximately 40-50% of these relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) 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 over 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.

Intercompany 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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statement

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 a subsidiary is required upon receiving a dividend from the investment if the dividend exceeds the total comprehensive income of the subsidiary in the period 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.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) 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 the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance expenses — net". All other foreign exchange gains and losses are presented in profit or loss within "other income and other gains — net".

2 Summary of significant accounting policies *(Continued)*

2.5 Prepaid operating lease

Prepaid operating leases represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the lease term of 41-45 years.

2.6 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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 of property, plant and equipment is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Plant and buildings	5–20 years
Machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

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

Assets under construction represent buildings and ancillary facilities under construction, and are stated at cost. Costs include construction and acquisition costs. No depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and other gains — net" in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.7 Intangible assets

Intangible assets represent computer software purchased by the Group. Computer software are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the computer software for periods of 5 years. Amortisation of computer software is calculated on the straight-line method over the period of 5 years.

2.8 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.9 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed 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 flows (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

(a) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "notes receivables", "amounts due from a related party", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheet.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is 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 Group 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.

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 a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2 Summary of significant accounting policies *(Continued)*

2.12 Impairment of financial assets *(Continued)*

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 the profit or loss.

Impairment testing of trade receivable is described in Note 19.

2.13 Trade and other receivables and notes receivables

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

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

2.14 Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. It excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. 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.

2.15 Cash and cash equivalents and restricted cash

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares 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, notes payables and amounts due to related parties

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables, notes payables and amounts due to related parties are presented as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables, notes payables and amounts due to related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are recognised initially 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.

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 end of the reporting period.

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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 Summary of significant accounting policies *(Continued)*

2.19 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting period in the countries where the Company's subsidiaries 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.

(b) 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. The deferred income tax is 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 substantively 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.

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 are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income 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 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 Summary of significant accounting policies *(Continued)*

2.20 Employee benefits and share base payments

(a) Social security obligations

Pursuant to the relevant regulations of the PRC governments, the subsidiary of the Group that was established in the PRC (the "PRC Subsidiary") has participated in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the governmental authorities (the "Schemes"), whereby the PRC Subsidiary is required to contribute a certain percentage of the salaries of their employees to the Schemes to fund their social security benefits. The local municipal government undertakes to assume the social security benefits of those employees of the Group. Contributions under the Schemes are charged to profit or loss as incurred.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the group company in Hong Kong (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of the group company and its employees are subject to a cap of HK$1,500 and thereafter contributions are voluntary.

(b) Bonus plan

Provisions for bonus plan due wholly within twelve months after the end of the reporting period is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

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

2 Summary of significant accounting policies *(Continued)*

2.20 Employee benefits and share base payments *(Continued)*

(d) Equity-settled share-based payment transactions

The Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.21 Provisions

Provisions 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 has been 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 expected to be required to settle the 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 passage of time is recognised as interest expense.

2 Summary of significant accounting policies *(Continued)*

2.22 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.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has initially accepted the products; the risks and rewards relating to the products are passed to the customer and collectibility of the related receivables is reasonably assured.

(b) Processing service income

The Group provides processing services to certain customers. Processing service income is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.23 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.

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

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.24 Interest income and rental income

(a) Interest income

Interest income is recognised using the effective interest method. When a loan and 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 and receivables is recognised using the original effective interest rate.

2 Summary of significant accounting policies *(Continued)*

2.24 Interest income and rental income *(Continued)*

(b) Rental income

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease periods.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) The Group as lessee

Payments made under operating leases (net of any incentives received from the lessor) by the Group are charged to the profit or loss on a straight-line basis over the period of the lease.

(b) The Group as lessor

Assets leased out under operating leases by the Group are included in the Group's consolidated balance sheet in accordance with their nature and where applicable, and are depreciated in accordance with the Group's depreciation policy as set out in Note 2.6. Rental income arising from assets leased out under operating leases is recognised in accordance with the Group's income recognition policy as set out in Note 2.24(b) above.

2.26 Dividend distribution

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

3 Financial risk management

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk 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.

Risk management is carried out by the financial department under policies approved by the board of directors.

3 Financial risk management *(Continued)*

3.1 Financial risk factors

3.1.1 Market risk

(a) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, while certain transactions which are settled in foreign currencies. The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

At 31 December 2017, the Group's cash at bank of RMB2,038,000 (31 December 2016: RMB2,429,000), amounts due from a related party of RMB1,511,000 (31 December 2016: nil) and other payables of RMB224,000 (31 December 2016: RMB3,147,000) were denominated in Hong Kong dollar ("HK$") which exposed the Group to foreign currency risk. If RMB had weakened/strengthened by 5% against HK$, with all other variables held constant, the profit for the year ended 31 December 2017 would have been RMB166,000 higher/lower (loss for the year 2016: RMB36,000 higher/lower), mainly as a result of net foreign exchange gains/losses on the translation of HK$ denominated cash at bank, amounts due from a related party and other payables into RMB.

(b) Cash flow and fair value interest rate risk

The Group's interest bearing assets and liabilities are summarised as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Restricted cash *(Note 20)*	**38,719**	48,123
Cash and cash equivalents *(Note 21)*	**14,776**	23,833
Amounts due from a related party *(Note 28(d))*	**1,511**	–
Borrowings *(Note 24)*	**(14,980)**	(20,000)
Net exposure of interest bearing assets	**40,026**	51,956

The annual interest rates of the Group's deposits held in banks during the year ended 31 December 2017 ranged from 0.30% to 3.20% (2016: from 0.30% to 1.30%). The Group's restricted cash, amounts due from a related party and borrowings as of 31 December 2017 were held at fixed rates and exposed the Group to fair value interest rate risk. The Group's cash at banks were held at variable rates and exposed the Group to cash flow rate risk. The Group currently did not use any interest rate swaps to hedge its exposure to interest rate risks as either cash flow or fair value interest rate risk was not significant due to their short-term maturities.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of trade and other receivables, notes receivables, amounts due from a related party, cash and cash equivalents and restricted cash.

As at 31 December 2017, substantially all of the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2017 and 2016 are as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash at banks:		
— Big four commercial banks *(Note (i))*	**922**	8,223
— Other listed banks	**13,854**	15,610
	14,776	23,833
Restricted cash:		
— Other listed banks	**38,719**	48,123

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes receivables represent bank acceptance notes. The issuing banks of bank acceptance notes are either state-owned banks with investment grade rating or local banks with good reputation. Management believes that these financial institutions are of high credit quality and there is no significant credit risk on the Group's bank deposits and bank acceptance notes.

As at 31 December 2017, approximately 78.1% (31 December 2016: 93.8%) of the Group's trade receivables were due from the top five largest customers, while 34.1% (31 December 2016: 37.8%) of the Group's trade receivables were due from the largest customer.

All of the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers or counter parties with appropriate credit history and the Group performs periodic credit evaluations of its customers or counter parties. The Group assesses the credit quality of each customer or counter party by taking into account its financial position, past experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regard, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the consolidated financial statements after assessing the collectability of individual debts. Further quantitative disclosures in respect of trade receivables and other receivables are set out in Note 19.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year *RMB'000*
31 December 2017	
Borrowings	**15,094**
Trade and other payables	**117,731**
Notes payables	**62,313**
Amounts due to related parties	**2,086**
	197,224

	Less than 1 year *RMB'000*
31 December 2016	
Borrowings	21,091
Trade and other payables	117,931
Notes payables	88,123
Amounts due to related parties	4,905
	232,050

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 owners 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 owners, return capital to owners, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings and amounts due to related parties. Total equity represents the "total equity" shown in the consolidated balance sheet.

The gearing ratios at 31 December 2017 and 2016 were as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Borrowings *(Note 24)*	**14,980**	20,000
Amounts due to related parties *(Note 28)*	**2,086**	4,905
Total debt	**17,066**	24,905
Total equity	**116,674**	111,450
Gearing ratio	**15%**	22%

The decrease in the gearing ratio during the year ended 31 December 2017 resulted primarily from the decrease in borrowing and amounts due to related parties.

3 Financial risk management *(Continued)*

3.3 Fair value estimation

Financial instruments carried at fair value or where fair value was disclosed can be categorised by level of the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels within a fair value hierarchy as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) 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).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets include cash and cash equivalents, restricted cash, trade and other receivables, notes receivables and amounts due from a related party. The Group's financial liabilities include trade and other payables, notes payables, borrowings and amounts due to related parties. Their carrying values approximated their fair values due to their short maturities.

4 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Estimated impairment of trade receivables

The Group records impairment of trade receivables based on an assessment made by management on the recoverability of trade receivables. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade receivables and the impairment charge in the period in which such estimate has been changed.

(b) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the current and deferred income tax and deferred income tax assets and liabilities in the year in which such determination is made.

4 Critical accounting estimates and judgements *(Continued)*

(c) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If there are significant changes from previously estimated useful lives and residual values, the amount of depreciation expenses may change.

(d) Estimated impairment of inventories

The Group estimates the net realisable value of inventories. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. Even if the Group has made stock provision for the expected impairment at its best estimate, there is a possibility that changes in market conditions will alter the result.

5 Segment information

Management has determined the operating segments based on the reports reviewed by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in the manufacture and sales of packing materials for cigarette in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one operating segment which is used to make strategic decisions.

The major operating entity of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue are derived from the PRC.

As at 31 December 2017, all of operating related non-current assets were located in the PRC (31 December 2016: same).

6 Revenue

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of cigarette packaging products:		
— transfer metallised paper	**224,528**	276,976
— laminated metallised paper	**13,737**	29,823
	238,265	306,799
Processing service income	**45**	3,909
	238,310	310,708

Revenues from transactions with external customers amounting to 10% or more of the Group's revenues are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Customer A:	**76,645**	106,173
Customer B:	**64,313**	101,447
Customer C:	**32,391**	Not applicable*
Customer D:	**27,116**	57,643

*Note *:* The revenue of the particular customer for the particular year is less than 10% of the Group's revenue for the particular year.

7 Other income and other gains — net

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other income:		
Sales of raw material and waste material	**834**	765
Rental income	**934**	934
Subsidy income (i)	**5,288**	326
	7,056	2,025
Other expenses:		
Cost of raw material and waste material sold	**(824)**	(685)
Cost of rental	**(379)**	(379)
	(1,203)	(1,064)
Other gains/(losses)		
Net foreign exchange gains/(losses)	**71**	(928)
Other income and other gains — net	**5,924**	33

(i) It mainly represented the government grants related to the Listing received. There are no unfulfilled conditions or other contingencies attaching to these grants.

8 Expenses by nature

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**195,522**	234,087
Changes in inventories of finished goods and work in progress	**(9,530)**	5,440
Staff costs (including directors' emoluments) *(Note 9)*	**15,917**	16,955
Transportation expenses	**14,463**	13,145
Utilities	**3,565**	4,104
Depreciation *(Note 16(a))*	**3,475**	3,468
Entertainment expenses	**3,625**	3,339
Travelling expenses	**1,811**	877
Other taxes and surcharges	**1,191**	2,267
Auditors' remuneration	**1,126**	1,225
Maintenance expenses	**723**	589
Amortisation of prepaid operating lease *(Note 15)*	**225**	225
Impairment provision for trade receivables *(Note 19)*	**1,046**	–
Professional fees in respect of the Listing	**–**	26,076
Other expenses	**4,117**	4,481
Total cost of sales, distribution expenses and administrative expenses	**237,276**	316,278

8 Expenses by nature *(Continued)*

Research and development expenses during the year, which mainly included materials consumed and related staff costs, are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Research and development expenses	**7,644**	10,329

No research and development expenses had been capitalised for the year ended 31 December 2017 (2016: same).

9 Staff costs (including directors' emoluments)

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**13,436**	14,283
Contributions to employee social security plans	**1,981**	2,172
Share-based compensation expenses *(Note 23(b))*	**500**	500
	15,917	16,955

9 Staff costs (including directors' emoluments) *(Continued)*

(a) Benefits and interests of directors

Directors' and chief executive's emoluments

The remuneration of each director and the chief executive for the year is set out below:

For the year ended 31 December 2017:

	Fees *RMB'000*	Salaries and allowances *RMB'000*	Discretionary bonus *RMB'000*	Contributions to employee social security plans *RMB'000*	Share-based compensation *RMB'000*	Total *RMB'000*
Chairman						
Mr. Zhang	**468**	**13**	**96**	**31**	**–**	**608**
Executive director and chief executive						
Mr. Fu Ming Ping ("Mr. Fu")	**–**	**154**	**18**	**31**	**500**	**703**
Independent non-executive						
Mr. CHENG Tai Kwan Sunny	**104**	**–**	**–**	**–**	**–**	**104**
Mr. TAN Yik Chung Wilson	**104**	**–**	**–**	**–**	**–**	**104**
Mr. YICK Ting Fai Jeffrey	**104**	**–**	**–**	**–**	**–**	**104**
	780	**167**	**114**	**62**	**500**	**1,623**

For the year ended 31 December 2016:

	Fees *RMB'000*	Salaries and allowances *RMB'000*	Discretionary bonus *RMB'000*	Contributions to employee social security plans *RMB'000*	Share-based compensation *RMB'000*	Total *RMB'000*
Chairman						
Mr. Zhang	–	120	18	31	–	169
Executive director and chief executive						
Mr. Fu	–	154	36	31	500	721
Independent non-executive						
Mr. CHENG Tai Kwan Sunny	11	–	–	–	–	11
Mr. TAN Yik Chung Wilson	11	–	–	–	–	11
Mr. YICK Ting Fai Jeffrey	11	–	–	–	–	11
	33	274	54	62	500	923

9 Staff costs (including directors' emoluments) *(Continued)*

(a) Benefits and interests of directors *(Continued)*

Directors' and chief executive's emoluments *(Continued)*

During the year ended 31 December 2017, none of the directors of the Company waived their emoluments nor had agreed to waive their emoluments (2016: same).

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable (2016: same). No consideration was provided to or receivable by third parties for making available directors' services (2016: same). Other than those disclosed in Note 28(d), there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: same).

Other than those disclosed in Note 28(b), there were no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: same).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2017 include two (2016: one) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year ended 31 December 2017 (2016: four) are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**1,529**	1,543
Contributions to employee social security plans	**59**	88
	1,588	1,631

The emoluments of these remaining individuals of the Group fall within the following bands:

	Year ended 31 December	
	2017	2016
Emolument bands from nil to HK$1,000,000 (equivalent to nil to RMB836,000)	**3**	4

During the year ended 31 December 2017, no emolument was paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2016: same).

10 Finance expenses — net

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
— interest income	**543**	515
— exchange gains	**–**	7
	543	522
Finance expenses		
— interest expenses	**(941)**	(1,308)
— exchange losses	**(151)**	–
— discount charges on bank acceptance notes	**–**	(285)
	(1,092)	(1,593)
Finance expenses — net	**(549)**	(1,071)

11 Subsidiaries

The following is a list of the principal subsidiaries at 31 December 2017:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued share capital or registered capital**	**Equity interest held**
Directly held:				
Lucky Glorious Limited	BVI, limited liability company	Investment holding in the BVI	1 Ordinary share, US dollar 1	100%
Indirectly held:				
Mengke (Hong Kong) Company Limited	Hong Kong, limited liability company	Investment holding in Hong Kong	1 Ordinary share, HK$1	100%
Hubei Mengke Paper Co., Ltd. ("Hubei Mengke")	The PRC, foreign investment enterprise	Manufacture and sales of cigarette packing materials in the PRC	RMB24,000,000	100%

11 Subsidiaries *(Continued)*

(i) Significant restrictions

Cash and short-term deposits held in the PRC are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends.

The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is RMB51,457,000 (31 December 2016: RMB69,527,000).

12 Income tax expense

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**746**	3,384
Deferred income tax:		
— PRC corporate income tax	**939**	(557)
	1,685	2,827

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from British Virgin Islands income tax.

No provision for Hong Kong profit tax was provided as the Group did not have assessable profit in Hong Kong for the year ended 31 December 2017 (2016: same). The profit of the group entity in Hong Kong is mainly derived from dividend income from its subsidiary, which is not subject to Hong Kong profits tax.

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year ended 31 December 2017 (2016: same).

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law and the Implementation Rules of the CIT Law, the standard tax rate of the PRC entities was 25%.

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") in 2013 and re-designated as the same in 2016. The qualification is valid for three years ending 31 December 2018. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the year ended 31 December 2017 (2016: 15%).

12 Income tax expense *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the corporate income tax rate applicable to profit or loss of the Group's business in the Mainland China as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before income tax	**6,409**	(6,608)
Calculated at applicable corporate income tax rates of the Group's business in Mainland China	**961**	(991)
Tax effect of:		
— additional deduction on research and development expenses	**(569)**	(771)
— expenses not deductible for tax purposes	**1,516**	4,497
— (Over)/under-provision of PRC corporate income tax in prior year	**(223)**	92
Income tax expense	**1,685**	2,827

13 Earnings/(losses) per share

(a) Basic

The basic earnings/(losses) per share is calculated on the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the year.

	Year ended 31 December	
	2017	2016
Profit/(loss) attributable to owners of the Company (RMB'000)	**4,724**	(9,435)
Weighted average number of shares in issue (thousands shares)	**500,000**	387,671
Basic earnings/(losses) per share (expressed in RMB per share)	**0.94 cents**	(2.43) cents

(b) Diluted

Diluted earnings/(losses) per share presented is the same as the basic earnings/(losses) per share as there were no potentially dilutive ordinary shares outstanding during the year ended 31 December 2017 (2016: same).

14 Dividends

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

15 Prepaid operating lease

The balance represented prepaid operating lease payments for several pieces of land located in the PRC. The movements are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**13,979**	13,979
Accumulated amortisation	**(1,538)**	(1,201)
Net book amount	**12,441**	12,778
Amortisation	**(337)**	(337)
Closing net book amount	**12,104**	12,441
At end of the year		
Cost	**13,979**	13,979
Accumulated amortisation	**(1,875)**	(1,538)
Net book amount	**12,104**	12,441

Amortisation of the Group's prepaid operating leases has been charged to profit or loss as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Costs of sales	**119**	119
Administrative expenses	**106**	106
Other expenses	**112**	112
	337	337

As at 31 December 2017, the prepaid operating lease was pledged as collaterals for the borrowings (Note 24) and bank acceptance notes payable (Note 25) of the Group (31 December 2016: same).

16 Property, plant and equipment and deferred government grants

(a) Property, plant and equipment

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
At 1 January 2016						
Cost	34,670	17,228	1,414	1,775	–	55,087
Accumulated depreciation	(6,031)	(9,473)	(428)	(457)	–	(16,389)
Net book amount	28,639	7,755	986	1,318	–	38,698
Year ended 31 December 2016						
Opening net book amount	28,639	7,755	986	1,318	–	38,698
Additions	700	1,247	139	68	–	2,154
Depreciation charges	(1,707)	(1,437)	(278)	(313)	–	(3,735)
Closing net book amount	27,632	7,565	847	1,073	–	37,117
At 31 December 2016						
Cost	35,370	18,475	1,553	1,843	–	57,241
Accumulated depreciation	(7,738)	(10,910)	(706)	(770)	–	(20,124)
Net book amount	27,632	7,565	847	1,073	–	37,117
At 1 January 2017						
Cost	35,370	18,475	1,553	1,843	–	57,241
Accumulated depreciation	(7,738)	(10,910)	(706)	(770)	–	(20,124)
Net book amount	27,632	7,565	847	1,073	–	37,117
Year ended 31 December 2017						
Opening net book amount	27,632	7,565	847	1,073	–	37,117
Additions	–	–	–	413	3,502	3,915
Transfers	2,967	140	–	–	(3,107)	–
Depreciation charges	(1,761)	(1,387)	(284)	(310)	–	(3,742)
Closing net book amount	28,838	6,318	563	1,176	395	37,290
At 31 December 2017						
Cost	38,337	18,615	1,553	2,256	395	61,156
Accumulated depreciation	(9,499)	(12,297)	(990)	(1,080)	–	(23,866)
Net book amount	28,838	6,318	563	1,176	395	37,290

16 Property, plant and equipment and deferred government grants *(Continued)*

(a) Property, plant and equipment *(Continued)*

Depreciation expenses have been charged to the profit or loss as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Costs of sales	**2,152**	2,205
Distribution expenses	**130**	131
Administrative expenses	**1,193**	1,132
Other expenses	**267**	267
	3,742	3,735

As at 31 December 2017, the costs of fully depreciated property, plant and equipment were RMB6,299,000 (31 December 2016: RMB4,581,000).

As at 31 December 2017, property, plant and equipment with carrying amounts of RMB23,725,000 (31 December 2016: RMB25,325,000) were pledged as collaterals for the borrowings (Note 24) and bank acceptance notes payables (Note 25) of the Group.

(b) Deferred government grants

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the year	**1,382**	1,502
Government grants received relating to property, plant and equipment	**–**	25
Amortisation	**(146)**	(145)
At end of the year	**1,236**	1,382

17 Deferred income tax

	31 December 2017 RMB'000	2016 RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**530**	455
— to be recovered within 12 months	**356**	969
	886	1,424
Deferred income tax liabilities:		
— to be recovered within 12 months	**(401)**	–
Deferred income tax assets — net	**485**	1,424

The gross movement on the deferred income tax account is as follows:

	Year ended 31 December 2017 RMB'000	2016 RMB'000
At beginning of the year	**1,424**	867
Tax (charged)/credited to profit or loss	**(939)**	557
At end of the year	**485**	1,424

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred income tax assets			Deferred income tax liabilities	
		Timing difference on			
	Bad debt provision RMB'000	Accrued expenses RMB'000	Depreciation RMB'000	Exchange gains RMB'000	Total RMB'000
At 1 January 2016	4	450	413	–	867
Tax (charged)/credited to profit or loss	(4)	519	42	–	557
At 31 December 2016	–	969	455	–	1,424
At 1 January 2017	–	969	455	–	1,424
Tax (charged)/credited to profit or loss	157	(770)	75	(401)	(939)
At 31 December 2017	157	199	530	(401)	485

17 Deferred income tax *(Continued)*

According to the CIT Law and the Implementation Rules, starting from 1 January 2008, a withholding tax of 10% is levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty arrangements between the relevant authorities of Mainland China and Hong Kong.

Deferred income tax liabilities of RMB4,081,000 as at 31 December 2017 (31 December 2016: RMB2,929,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the Group's PRC subsidiary as the directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

18 Inventories

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials	**43,387**	39,002
Finished goods	**16,464**	8,366
Work in progress	**3,381**	1,949
	63,232	49,317

The cost of inventories recognised as expenses and is included in the profit or loss as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Costs of sales	**193,095**	243,519
Distribution expenses	**6**	60
Administrative expenses	**5,249**	8,025
Other expenses	**824**	685
	199,174	252,289

19 Trade and other receivables and prepayments and notes receivables

	31 December 2017 RMB'000	2016 RMB'000
Trade receivables *(Note (a))*	**145,580**	170,567
Less: provision for impairment of trade receivables	**(1,046)**	–
Trade receivables — net	**144,534**	170,567
Deductible value-added-tax ("VAT") *(Note (h))*	**–**	2,429
Others	**3,319**	721
	147,853	173,717

	31 December 2017 RMB'000	2016 RMB'000
Notes receivables	**3,499**	1,000

(a) Ageing analysis of trade receivables based on invoice date as at 31 December 2017 is as follows:

	31 December 2017 RMB'000	2016 RMB'000
Less than 30 days	**82,098**	121,300
31 days to 60 days	**20,584**	27,830
61 days to 90 days	**26,658**	19,576
91 days to 120 days	**9,570**	491
121 days to 180 days	**5,196**	882
Over 180 days	**1,474**	488
	145,580	170,567

The Group's sales are usually made on credit terms of 30 to 180 days. As at 31 December 2017, trade receivables of RMB109,823,000 (31 December 2016:RMB152,965,000) were fully performing.

19 Trade and other receivables and prepayments and notes receivables *(Continued)*

(a) Ageing analysis of trade receivables based on invoice date as at 31 December 2017 is as follows: *(Continued)*

As at 31 December 2017, trade receivables of RMB34,711,000 (31 December 2016: RMB17,602,000) 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:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
61 days to 90 days	**21,140**	15,741
91 days to 120 days	**8,696**	491
121 days to 180 days	**4,447**	882
Over 180 days	**428**	488
	34,711	17,602

(b) Impaired trade receivables

At 31 December 2017, trade receivables of RMB1,046,000 (2016: nil) were individually determined to be impaired. The individually impaired receivables related to a customer that was in financial difficulties and management assessed that no receivables are expected to be recovered. Consequently, specific allowances for doubtful debts of RMB1,046,000 (2016: nil) were recognised. The ageing of the receivables is as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Over 180 days	**1,046**	–

(c) The carrying amounts of trade receivables are all denominated in RMB.

(d) Notes receivables of the Group as at 31 December 2017 mainly represents bank acceptance notes issued by banks with maturity period of 180 days (31 December 2016: same).

(e) As at 31 December 2017, trade receivables with carrying amount of RMB17,047,000 (31 December 2016: RMB29,420,000) was pledged as collaterals for the borrowings (Note 24) of the Group.

(f) The Group's maximum exposure to credit risk at the reporting date was the carrying value of each class of trade and other receivables mentioned above. The Group does not hold any collateral as security.

(g) The carrying amounts of each class of trade and other receivables mentioned above approximate to their fair value due to their short maturities as of 31 December 2017 (31 December 2016: same).

(h) It represents the unutilised input VAT that is deductible from future output VAT.

20 Restricted cash

	31 December 2017 RMB'000	2016 RMB'000
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	**38,719**	48,123

21 Cash and cash equivalents

	31 December 2017 RMB'000	2016 RMB'000
Cash at banks and denominated:		
— RMB	**12,738**	21,404
— HK$	**2,038**	2,429
	14,776	23,833

22 Share capital

	Number of ordinary shares	Share capital HK$
Authorised ordinary share of HK$0.01 each:		
At 8 January 2016 (date of incorporation of the Company)	38,000,000	380,000
Increase in authorised share capital *(Note (a))*	962,000,000	9,620,000
At 31 December 2016 and 2017	1,000,000,000	10,000,000

	Number of ordinary shares	Share capital HK$	Share capital RMB'000
Issued and fully paid up:			
At 8 January 2016 (date of incorporation of the Company)	100	1	–
Capitalisation issue *(Note (b))*	374,999,900	3,749,999	3,344
Issue of new shares pursuant to the initial public offering *(Note (c))*	125,000,000	1,250,000	1,115
At 31 December 2016 and 2017	500,000,000	5,000,000	4,459

22 Share capital (continued)

(a) Pursuant to the shareholders' resolutions passed on 3 November 2016, the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000 by creation of an additional 962,000,000 ordinary shares of a par value of HK$0.01 each, ranking pari passu in all respect with the existing shares of the Company.

(b) Pursuant to the resolutions of the shareholders passed on 3 November 2016, the Company allotted and issued a total of 374,999,900 shares credited as fully paid at par to the existing shareholders of the Company in proportion to their respective shareholdings by way of capitalisation of the sum of HK$3,749,999 standing to the credit of the share premium account of the Company.

(c) In connection with the initial public offering of shares of the Company, 125,000,000 ordinary shares at par value of HK$0.01 each were issued at HK$0.70 each for total consideration of HK$87,500,000 in aggregate (without deducting share issuance costs) on 25 November 2016. Share issuance costs at RMB10,509,000 that were directly attributable to the issuance of ordinary shares in connection with the initial public offering were treated as a deduction from share premium.

(d) No new shares were issued during the year.

23 Other reserves

	Share premium *RMB'000*	Statutory reserves *RMB'000*	Share-based compensation reserve *RMB'000*	Merger reserve *RMB'000*	Total *RMB'000*
At 1 January 2016	–	11,429	500	24,000	35,929
Appropriation to statutory reserves *(Note (a))*	–	1,595	–	–	1,595
Share-based compensation reserve *(Note (b))*	–	–	500	–	500
Transactions with owners:					
— Capital contributions from the shareholders of the Company	–	–	–	62,803	62,803
— Deemed distributions to the then owners of a group company	–	–	–	(63,000)	(63,000)
— Shares issued pursuant to the initial public offering *(Note 22(c))*	76,918	–	–	–	76,918
— Share issuance costs *(Note 22(c))*	(10,509)	–	–	–	(10,509)
— Capitalisation issue *(Note 22(b))*	(3,344)	–	–	–	(3,344)
At 31 December 2016	63,065	13,024	1,000	23,803	100,892
At 1 January 2017	63,065	13,024	1,000	23,803	100,892
Share-based compensation reserve *(Note (b))*	–	–	500	–	500
At 31 December 2017	63,065	13,024	1,500	23,803	101,392

23 Other reserves *(Continued)*

(a) Statutory reserves

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiary, the PRC subsidiary is required to appropriate 10% of their profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and other applicable regulations, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders of the PRC subsidiary. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the PRC subsidiary's capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of its capital.

(b) Share-based compensation reserve

In December 2014, Mr. Zhang sold 13.5% equity interest of Hubei Mengke to Mr. Fu at a consideration of RMB4,500,000 in exchange for five years' consecutive services of Mr.Fu as key management personnel of the Group. The equivalent fair value of the equity interest granted to Mr. Fu is RMB7,000,000. The difference between the consideration and the fair value of the equity interest granted to Mr. Fu is treated as share-based payments to be amortised and charged as staff costs into the profit and loss during the five years' service period using straight line method, with the corresponding credit to other reserves. The total expense recognised for employee services received in respect of the equity interest granted to Mr. Fu for the year ended 31 December 2017 was RMB500,000 (2016: RMB500,000) (Note 9).

24 Borrowings

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Current:		
Short term bank borrowings — secured	**14,980**	20,000

The Group's short term bank borrowings were all repayable within one year and bear average interest rate of 4.3% annually as at 31 December 2017 (31 December 2016: 4.9% annually).

The borrowings were secured by prepaid operating lease (Note 15), property, plant and equipment (Note 16(a)), and trade receivables (Note 19(e)) of the Group as at 31 December 2017 (31 December 2016: same).

24 Borrowings *(Continued)*

At 31 December, the Group's borrowings were repayable as follows:

	31 December	
	2017	2016
	RMB'000	*RMB'000*
6 months or less	**14,980**	15,000
6 to 12 months	**–**	5,000
	14,980	20,000

The fair value of Group's borrowings equals their carrying amount, as the impact of discounting is not significant due to their short-term maturities. The carrying amounts of the Group's borrowings are denominated in RMB.

25 Trade and other payables and notes payables

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables *(Note (a))*	**112,455**	110,040
Accrual for staff costs and allowances	**1,939**	2,287
Payables for acquisition of property, plant and equipment	**2,492**	639
Other tax payables	**2,296**	495
Accrual for listing expenses	**–**	3,316
Other payables	**2,784**	3,936
	121,966	120,713

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Notes payables — bank acceptance notes *(Note (c))*	**62,313**	88,123

25 Trade and other payables and notes payables *(Continued)*

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

	31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**80,929**	79,358
31 to 60 days	**15,634**	18,047
61 to 90 days	**5,227**	7,264
91 to 180 days	**6,968**	3,102
Over 180 days	**3,697**	2,269
	112,455	110,040

(b) The fair value of trade and other payables and notes payables approximate their carrying amounts at 31 December 2017 due to their short-term maturities (31 December 2016: same).

(c) As at 31 December 2017, the ageing of all notes payables were within 6 months. The notes payables were secured by prepaid operating lease (Note 15), property, plant and equipment (Note 16(a)) and restricted cash (Note 20) of the Group as at 31 December 2017 (31 December 2016: same).

26 Cash flow information

(a) Cash generated from/(used in) operations

Reconciliation of profit/(loss) for the year to cash used in operations is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit/(loss) before income tax	**6,409**	(6,608)
Adjustments for:		
— Depreciation *(Note 16(a))*	**3,742**	3,735
— Amortisation of prepaid operating lease *(Note 15)*	**337**	337
— Amortisation of intangible assets	**114**	7
— Finance expenses — net	**1,092**	1,586
— Share-based compensation expenses *(Note 23(b))*	**500**	500
— Government grants income	**(206)**	(212)
— Impairment provision for trade receivables *(Note 8)*	**1,046**	–
Changes in working capital:		
— Inventories	**(13,915)**	(751)
— Trade and other receivables and prepayments	**24,818**	(27,024)
— Notes receivables	**(2,499)**	200
— Restricted cash	**9,404**	(10,558)
— Trade and other payables	**(600)**	(22,246)
— Notes payables	**(25,810)**	22,993
— Amounts due to related parties	**736**	(3,304)
Cash generated from/(used in) operations	**5,168**	(41,345)

26 Cash flow information *(Continued)*

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year.

	31 December 2017 RMB'000	2016 RMB'000
Borrowings — repayable within one year	**14,980**	20,000
Amounts due to related parties	**1,350**	4,905
Net debt	**16,330**	24,905

	Liabilities: Borrowings — repayable within one year RMB'000	Liabilities: Amounts due to a related party RMB'000	Total RMB'000
Net debt as at 31 December 2016	20,000	4,905	24,905
Cash flows	(5,020)	(3,555)	(8,575)
Net debt as at 31 December 2017	14,980	1,350	16,330

27 Commitments

(a) Operating leases commitments

The Group leases various offices and cars under non-cancellable operating leases expiring within one to three years. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2017 RMB'000	2016 RMB'000
Within one year	**642**	270
Later than one year but not later than three years	**256**	39
	898	309

28 Related party transactions

(a) The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship
Mr. Zhang	Controlling Shareholder
Mr. Fu	Director and key management personnel of the Company
Yichang Kunxiang Trading Co., Ltd. ("Yichang Kunxiang")	Ultimately controlled by Mr. Zhang

(b) Significant transactions with related parties

During the year ended 31 December 2017, the Group had the following significant transactions with related parties.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest income from:		
Mr. Fu *(Note (i))*	**48**	–

(i) It represented the interest income of loans amounted to an aggregate of HK$1,750,000 (equivalent to approximately RMB1,463,000) with annual interest rate of 5% provided to Mr. Fu during the year ended 31 December 2017.

In the opinion of the directors, these transactions were carried out on terms agreed with the related parties in the ordinary course of business.

(c) Key management compensations

Key management compensations other than the emoluments of the executive and non-executive directors disclosed in Note 9(a) for the year ended 31 December 2017 are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**1,002**	864
Contributions to pension plans	**107**	105
	1,109	969

28 Related party transactions *(Continued)*

(d) Balances with related parties

	31 December 2017 *RMB'000*	2016 *RMB'000*
Amounts due from a related party:		
Mr. Fu *(Note (i))*	**1,511**	–
Amounts due to related parties *(Note (ii))*:		
Yichang Kunxiang	**1,350**	4,905
Mr. Fu	**736**	–
	2,086	4,905

(i) It represented the loans provided to Mr. Fu and the relevant interests accrued, which were unsecured and has been repaid subsequently in 2018.

(ii) The amounts due to related parties were unsecured, interest-free and repayable on demand.

29 Balance sheet and reserve movement of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Interests in a subsidiary		**98,334**	101,263
Current assets			
Prepayments		**121**	130
Amounts due from related parties		**11**	1,284
Cash and cash equivalents		**783**	2,426
		915	3,840
Total assets		**99,249**	105,103
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**4,459**	4,459
Other reserves	*(a)*	**119,406**	119,406
Accumulated losses	*(a)*	**(27,295)**	(21,997)
Total equity		**96,570**	101,868
Current liabilities			
Accruals and other payables		**215**	3,235
Amounts due to a related party		**2,464**	–
		2,679	3,235
Total equity and liabilities		**99,249**	105,103

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

(a) Movement of other reserves and accumulated losses of the Company

	Other reserves			
	Share premium *RMB'000*	**Contributed surplus** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 8 January 2016 (date of incorporation of the Company)	–	–	–	–
Loss for the year	–	–	(21,997)	(21,997)
Transactions with owners:				
— Capital contributions from the shareholders of the Company	–	62,803	–	62,803
— Deemed distributions to the then owners of a group company	–	(63,000)	–	(63,000)
— Net asset value of the subsidiary acquired upon Reorganisation	–	56,538	–	56,538
— Shares issued pursuant to the initial public offering	76,918	–	–	76,918
— Share issuance costs	(10,509)	–	–	(10,509)
— Capitalisation issue	(3,344)	–	–	(3,344)
Balance at 31 December 2016	63,065	56,341	(21,997)	97,409
At 1 January 2017	63,065	56,341	(21,997)	97,409
Loss for the year	–	–	(5,298)	(5,298)
Balance at 31 December 2017	63,065	56,341	(27,295)	92,111

FIVE YEAR FINANCIAL SUMMARY

The summary of the consolidated results of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and of the consolidated assets and liabilities of the Group as at 31 December 2013, 2014 and 2015 has been extracted from the Prospectus.

CONSOLIDATED RESULTS

	2013	2014	2015	2016	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	268,655	269,903	319,273	310,708	**238,310**
Gross profit	51,028	49,323	66,373	64,594	**44,947**
Profit/(loss) for the year	17,038	14,579	21,892	(9,435)	**4,724**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Assets					
Non-current assets	42,034	42,624	52,478	51,110	**49,987**
Current assets	165,749	235,118	241,778	295,990	**269,590**
Total assets	207,783	277,743	294,256	347,100	**319,577**
Liabilities					
Current liabilities	164,587	219,450	239,696	234,268	**201,667**
Non-current liabilities	582	1,100	1,502	1,382	**1,236**
Total liabilities	165,169	220,550	241,198	235,650	**202,903**
Equity					
Total equity	42,614	57,193	53,058	111,450	**116,674**