YOUYUAN INTERNATIONAL HOLDINGS LIMITED

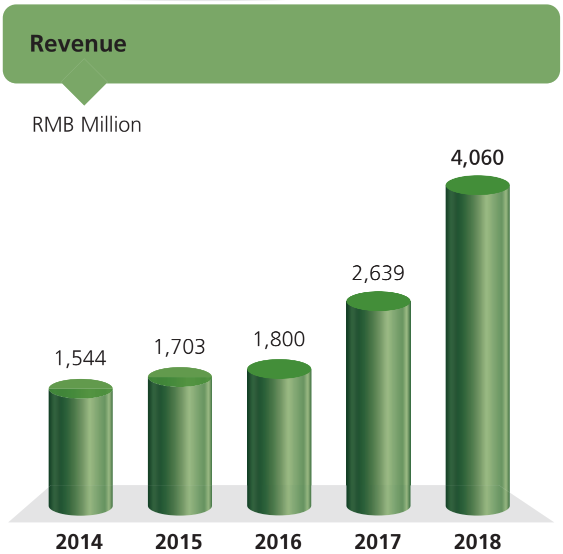
優源國際控股有限公司

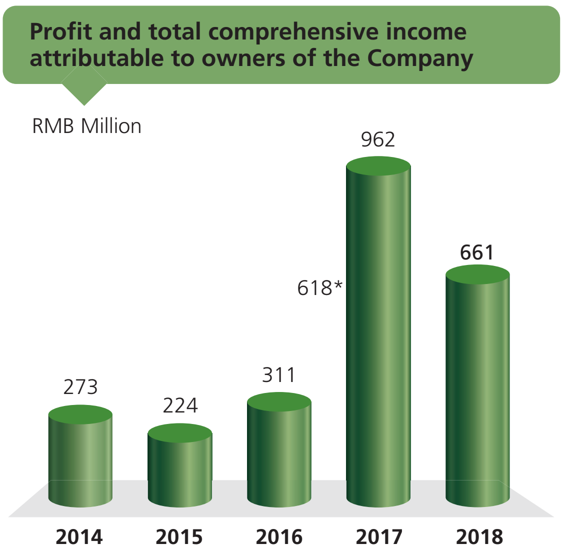
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2268)

ANNUAL REPORT 2018

Contents

FINANCIAL HIGHLIGHTS





* excluded an one-off gain on deemed disposal of an associate

Executive directors

Mr. Ke Wentuo (柯文托)
Mr. Ke Jixiong (柯吉熊)
Mr. Cao Xu (曹旭)
Mr. Zhang Guoduan (張國端)
Ms. Lian Bi Yu (連碧玉) (appointed on 10 April 2018)

Independent non-executive directors

Prof. Zhang Daopei (張道沛)
Prof. Chen Lihong (陳禮洪)
Mr. Chow Kwok Wai (周國偉)

Audit committee

Mr. Chow Kwok Wai *(Chairman)*
Prof. Zhang Daopei
Prof. Chen Lihong

Remuneration committee

Prof. Chen Lihong *(Chairman)*
Prof. Zhang Daopei
Mr. Ke Wentuo

Nomination committee

Prof. Zhang Daopei *(Chairman)*
Prof. Chen Lihong
Mr. Ke Wentuo

Company secretary

Mr. Wong Yat Sum, FCCA, FCPA

Authorised representatives

Mr. Ke Wentuo
Mr. Wong Yat Sum

Cayman Islands share registrar and transfer office

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong share registrar

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

Registered office

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

Headquarters in the PRC

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

Principal place of business in Hong Kong

7th Floor, Hip Shing Hong Centre
55 Des Voeux Road Central
Central, Hong Kong

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

In Hong Kong:

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank Limited

In the PRC:

Bank of China

Auditor

RSM Hong Kong
Certified Public Accountants

Legal advisors

Hong Kong law:

Chiu & Partner
Luk & Partners
In Association with Morgan, Lewis & Bockius

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

Zhixin Caijing

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited annual results of the Group for the year ended 31 December 2018.

The economy in China maintained stable growth at 6.6% from 2018 notwithstanding the slowest pace since 1990. Such predicted slowdown was hampered by a variety factors, most notably the trade frictions with the United States, a drive to cut corporate debt and environmental protection. Despite of the support measures that have been/will be implemented by the Chinese Government to keep the economy ticking over, including tax cuts, fee reductions and other fiscal stimulus, China's economy is expected to be remained lackluster on the back of moderating domestic growth amid trade tensions with the United States.

Retail sales via e-commerce, sustained its strong momentum in China and grew 25.4% from 2017. The online shopping frenzy underlined strength in China's consumer spending. Retail e-commerce in China is being shaped by fast growth and innovation and has become the new retail normal. The Chinese Government continued to divert the country's economic activities towards those that help boost domestic demand and enhance the overall efficiency from the otherwise unproductive investments in industries already suffering from overcapacity.

Despite the global economy mired in uncertainties while some indicators revealed stress, China has pushed forward with reforms and fostered new growth drivers for longer-term development. As the country looks to innovation for a new driver of growth, new business models and new market entities mushroom while traditional sectors continue to upgrade themselves and move up the value chain. There is great potential consumption to continue to grow faster than investment amid the ongoing trends of urbanization, ageing and a rising middle-income group that demands quality goods and services.

Business Review

For the year ended 31 December 2018, the Group's revenue was approximately RMB4,059.8 million (2017: RMB2,638.8 million), representing an increase of approximately 53.9% from that of the previous year. Profit attributable to owners of the Company decreased by approximately 31.3% to approximately RMB661.0 million (2017: RMB962.0 million). Basic earnings per share amounted to approximately RMB0.532 (2017: RMB0.799) per share.

In recent years, the supply side reform for the paper manufacturing industry undergone in China enabled optimisation of the internal environment of the industry with further regulation and consolidation. The Chinese Government requires faster closure of outdated and inefficient capacity and much more stringent approval requirements on new capacities, which is a move to solve over-capacity problem and regulate one of its most heavy-polluting industries. The results of tightening measurements imposed is getting more obvious.

The outperformance of the Group was partly attributed to the improving supply-demand relationship in the country's paper sector, where the supply has been strictly disciplined while the demand for paper products is dominated by the daily consumption of the online shopping. Limited new capacity and rising prices the Group. Moreover, the Group's proactive strategy to achieve the appropriate balance among selling prices, sales volume and inventory levels for optimal profitability was effective.

Prices of raw pulp continued to keep climbing resulting from the growing furnish costs and tightened regulation on waste paper imports imposed by the government. Nevertheless, the profit margin of the Group is secured as benefiting from using self-manufactured de-inked pulp.

As for finished paper products, the prices have been upheld at a favourable level given the demand for package-use paper products continued to grow steadily at in China and supply is getting tighter, with the difficulty of adding new capacity and continuous inefficient closures.

With the increasing living standard of Chinese residents, the output volume of household paper keeps growing accordingly. The development of e-commerce in China brings about the increase of expressage, which promotes the increasing output volume of package-use paper products in China. This sustained demand for both machine-finished tissue paper and cardboard paper.

These are substantiated with the headline economic figures of the country during the year. Retail sales for the whole year of 2018 in China rose 9.0% year on year, according to the National Bureau of Statistics whilst retail sales via e-commerce rose 25.4% year on year during the same period.

Similar to the retail sales, the residential property market in China marinated a steady growth which sustained demand for wall paper products. The completion of the step-up acquisition of the wall paper business in Fall 2017 which turned an associate into a subsidiary of the Group not just simply in a bid diversified its businesses since then, but it also enjoyed remarkable growth of revenue and profits for the year due to the full year effect.

Prospect and Strategy

Looking ahead, the global economy is expected to remain volatile while the trade tensions with the United States casting more variables to the global markets and dragging down China's economy where influences spending. The supply in the paper industry in China will continue to be affected by the government policies where more rigorous measures in environmental inspection and enforcement will be exercised resulting in a continuous elimination of backward production capacity by paper manufacturers. Despite the weakening economic outlook leading to market challenges, we believe that the demand for wrapping tissue paper and wall paper in the domestic consumption market will maintain the momentum of stable growth. The Group will reinforce its competitive advantages and adopt a more responsive operating strategy to solidify its leading position in the ever-changing environment.

After consolidating wall paper manufacturing business a year ago, the Group is empowered to capture opportunities across different sectors of paper business and continued leveraging its competitive advantages in traditional wrapping tissue paper business. The Group strives to improve its existing production and ancillary equipment for production output and increase synergies, and thus differentiating itself in the industry for the best shareholders' value.

Acknowledgements

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

Ke Wentuo
Chairman

Hong Kong, 28 March 2019

Business Review

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Segmental Analysis

Wrapping tissue paper

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

Total revenue generated from wrapping tissue paper was RMB2,171.6 million, contributed to approximately 53.5% of the Group's revenue for this reporting period.

Wall paper products

Wall paper products including Polyvinyl Chloride ("PVC") wall paper, non-woven wall paper, fabric wall covering and wall paper backing paper.

Total revenue generated from wall paper products was RMB1,380.9 million, contributed to approximately 34.0% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB290.1 million, contributed to approximately 7.1% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel, ivory boards and core boards, generated revenue of RMB217.2 million and contributed to approximately 5.4% of the Group's revenue for this reporting period.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (in term of locations from which sales were originated), with over 83.5% of Group's revenue for this reporting period was derived from these two regions.

Operational Analysis

As at 31 December 2018, notwithstanding the Group remained operated 37 production lines, the designed annual production capacity increased from 428,000 tonnes to 466,000 tonnes in aggregate after maintenance and upgrade, including 298,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 81,000 tonnes for other products. In addition, the Group operated 14 production lines with a designed annual production capacity of 27 million rolls for wall paper products.

The Group is also equipped with 3 in-house de-inked pulp production lines with designed annual production capacity of 176,000 tonnes in aggregate for its own use.

Prospects

Looking ahead, the global economy is expected to remain volatile while the trade tensions with the United States casting more variables to the global markets and dragging down China's economy which influences spending. The supply in the paper industry in China will continue to be affected by the government policies where more rigorous measures in environmental inspection and enforcement will be exercised resulting in a continuous elimination of backward production capacity by paper manufacturers. Despite the weakening economic outlook leading to market challenges, we believe that the demand for wrapping tissue paper and wall paper in the domestic consumption market will maintain the momentum of stable growth. The Group will reinforce its competitive advantages and adopt a more responsive operating strategy to solidify its leading position in the ever-changing environment.

After consolidating wall paper manufacturing business a year ago, the Group is empowered to capture opportunities across different sectors of paper business and continued leveraging its competitive advantages in traditional wrapping tissue paper business. The Group strives to improve its existing production and ancillary equipment for production output and increase synergies, and thus differentiating itself in the industry for the best shareholders' value.

Results

Revenue of the Group for the year ended 31 December 2018 was RMB4,059.8 million, representing an increase of approximately 53.9% from RMB2,638.8 million for the year ended 31 December 2017. Profit and total comprehensive income attributable to owners of the Company decreased by approximately 31.3% from RMB962.0 million for the year ended 31 December 2017 to RMB661.0 million for the year ended 31 December 2018. The decrease in profit and total comprehensive income attributable to owners of the Company were attributable to an one-off gain on deemed disposal of an associate of approximately RMB343.7 million recognised in 2017, foreign exchange loss due to depreciation of Renminbi ("RMB") against US Dollars ("USD") and high finance costs recognised in 2018, the impact of which was partly set off by increase in sales volume and average selling price of the Group's products.

Basic earnings per share for the year ended 31 December 2018 decreased by 33.4% to RMB0.532 per share when compared with the RMB0.799 per share for the year ended 31 December 2017, based on the profit and total comprehensive income attributable to owners of the Company of RMB661.0 million (For the year ended 31 December 2017: RMB962.0 million) and the weighted average of 1,243,508,999 shares (For the year ended 31 December 2017: 1,203,994,648 shares) in issue during this reporting period.

Gross profit

Gross profit of the Group increased to RMB1,640.8 million for the year ended 31 December 2018 from RMB891.3 million for the year ended 31 December 2017. Overall gross profit margin of the Group increased from 33.8% for the year ended 31 December 2017 to 40.4% for the year ended 31 December 2018.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net gain of RMB463.4 million for the year ended 31 December 2017 to a net loss of RMB34.7 million for the year ended 31 December 2018, mainly due to an one-off gain on deemed disposal of an associate of approximately RMB343.7 million recognised in 2017, the increase in net foreign exchange losses as a result of the depreciation of RMB against USD and HKD for the bank and other borrowings, convertible bonds and unsecured notes denominated in USD or HKD, the impact of which was partly set off by the fair value gain of a forward hedging contract and fair value gain on derivative component of convertible bonds.

Share of profits of an associate

Share of profits of an associate of the Group amounts to RMB67.0 million for the year ended 31 December 2017. Since 31 August 2017, the Group completed the acquisition of additional equity interests of this associate, which subsequently becomes a subsidiary of the Company. Its results, assets and liabilities were fully consolidated in the profit or loss of the Group for this reporting period.

Selling and distribution expenses

Selling and distribution costs of the Group increased by approximately 178.6% from RMB64.0 million for the year ended 31 December 2017 to RMB178.3 million for the year ended 31 December 2018, representing approximately 2.4% and 4.4% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 2.3% from RMB125.7 million for the year ended 31 December 2017 to RMB128.6 million for the year ended 31 December 2018, representing approximately 4.8% and 3.2% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group increased by approximately 133.0% from RMB94.9 million for the year ended 31 December 2017 to RMB221.0 million for the year ended 31 December 2018, primarily due to an increase in the average interest rate of bank and other borrowings during this reporting period.

Interest rates of bank and other borrowings ranged from 4.35% to 22.75% for the year ended 31 December 2018, compared with 3.35% to 5.46% for the year ended 31 December 2017.

Other expenses

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

Taxation

Tax charge increased by approximately 192.9% from RMB90.8 million for the year ended 31 December 2017 to RMB266.0 million for year ended 31 December 2018. The increase in tax charge was mainly due to increase in profit from operating subsidiaries in the PRC. The Group's effective tax rates for the years ended 31 December 2017 and 2018 were 8.4% and 26.8%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased from RMB962.0 million for the year ended 31 December 2017 to RMB661.0 million for the year ended 31 December 2018. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue decreased from approximately 36.5% for the year ended 31 December 2017 to approximately 16.3% for the year ended 31 December 2018.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production and finished goods for wall paper products. For the year ended 31 December 2018, the inventory turnover cycle was approximately 14.9 days (For the year ended 31 December 2017: 18.9 days*). Shorter inventory turnover cycle was mainly due better control on inventory management of the Group.

The turnover cycle of trade receivables for the year ended 31 December 2018 was 158.2 days (For the year ended 31 December 2017: 158.9 days*). The credit period granted to customers was ranged from 30 to 180 days. With deep understandings in its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

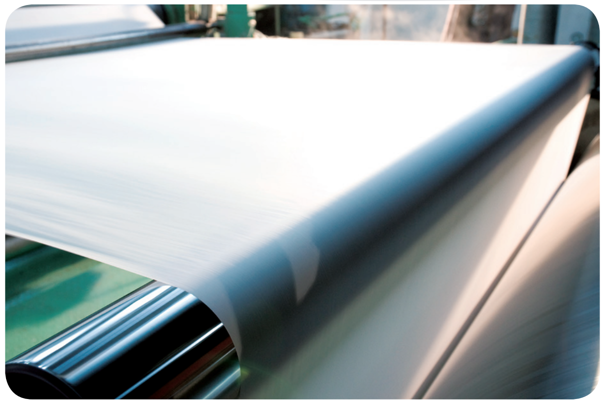
The turnover cycle for trade payables for the year ended 31 December 2018 was shortened to 42.6 days (For the year ended 31 December 2017: 48.9 days*). The credit period granted from our suppliers was ranged from 30 to 90 days.

* the calculation had taken into account of the effect of the acquisition of an associate at the beginning of 2017

Borrowings

As at 31 December 2018, the Group's bank and other borrowings balance amounted to RMB1,336.8 million, of which RMB1,320.8 million will be due for repayment within the next twelve months (As at 31 December 2017: RMB1,449.9 million, of which RMB660.1 million would be due for repayment within the next twelve months).

As at 31 December 2018, the Group's bank and other borrowings amounted to RMB968.6 million, carried at variable interest rates (As at 31 December 2017: RMB1,252.9 million).



As at 31 December 2018, the Group's net gearing ratio, which was calculated on the basis of total bank and other borrowings, convertible bonds and unsecured notes less bank balances and cash as a percentage of shareholder equity, was 37.2% (As at 31 December 2017: 34.3%).

Facility agreement

On 5 May 2016, the Company as borrower entered into the facility agreement with a syndicate of three banks for a 3.5-year term loan in the principal amount of US$115.0 million (the "Facility Agreement"). The Facility Agreement includes a condition imposing specific performance obligations on Mr. Ke Wentuo, the controlling shareholder of the Company (the "Controlling Shareholder") who is interested in approximately 56.11% of the issued share capital of the Company and short position in 13.91% of the issued share capital of the Company as of the date of the Facility Agreement and his associates (as defined in the Listing Rules), the breach of which will constitute an event of default under the Facility Agreement.

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

Pursuant to the Facility Agreement, it will be a change of control in the event that (i) the Controlling Shareholder and his associates collectively do not or cease to own at least 30% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 30% of the voting rights in the Company, free from any security; (ii) the Controlling Shareholder and his associates collectively do not or cease to have management control of the Company; (iii) the Controlling Shareholder and his associates collectively are not or cease to be the single largest shareholder of the Company; or (iv) the Controlling Shareholder is not or ceases to be the chairman of the Board. On and at any time after the occurrence of such a change of control which is continuing, the facility agent to the Facility Agreement may, among others, cancel all the available facility and declare all or part of the loans, together with all accrued interest, and all other amounts accrued or outstanding pursuant to the Facility Agreement to become due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable. Please refer to the announcement of the Company dated 5 May 2016 for details.

Convertible bonds

On 20 October 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 20 October 2018 (extendable for one year) ("October 2017 CB"), in the aggregate principal amount of HK$200.0 million (approximately RMB167.0 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). The October 2017 CB may not be redeemed by the Company at any time prior to their maturity date or if extended the extended maturity date. Pursuant to the supplemental deed entered into between the Company and the bondholder, the maturity date of the October 2017 CB was extended from 20 October 2018 to 20 October 2019. Upon exercise in full of the subscription rights attaching to the October 2017 CB at the conversion price of HK$4.4625 (subject to adjustment), which is a premium of approximately 16.82% to the closing price of HK$3.82 per share of the Company on 16 October 2017, being the date of the subscription agreement, a maximum of 44,817,927 shares of the Company are issuable under the general mandate granted by the shareholders at the annual general meeting of the Company held on 25 May 2017 ("General Mandate"). The conversion rights under the October 2017 CB are exercisable anytime after 19 April 2019 to 5:00 p.m. on the business day immediately before the extended maturity date. As at 31 December 2018, no shares of the Company has been issued as at the date of this report under the October 2017 CB. Details of the October 2017 CB are disclosed in the Company's announcement dated 16 October 2017, 10 May 2018 and 15 May 2018.

On 13 November 2017, the Company issued 4.5% guaranteed convertible bonds which was due on 13 November 2018 (extendable for 6 months) ("November 2017 CB"), in the aggregate principal amount of US$20.0 million (approximately RMB130.4 million) with an initial conversion price of HK$4.98 per share of the Company (subject to adjustment). The November 2017 CB may not be redeemed by the Company at any time prior to their maturity date or if extended the extended maturity date. Upon exercise in full of the subscription rights attaching to the November 2017 CB at the conversion price of HK$4.98 (subject to adjustment), which is a premium of approximately 5.06% to the closing price of HK$4.74 per share of the Company on 3 November 2017, being the date of the subscription agreement, a maximum of 31,325,301 shares of the Company are issuable under the General Mandate. As at 31 December 2018, no shares of the Company has been issued under November 2017 CB. Details of the November 2017 CB are disclosed in the Company's announcement dated 3 November 2017.

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year) ("February 2018 CB") in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). The February 2018 CB may not be redeemed by the company at any time prior to their maturity date or if extended, the extended maturity date. Upon exercise in full of the subscription rights attaching to the February 2018 CB at the conversion price of HK$4.4625 (subject to adjustment), which is a premium of approximately 41.67% to the closing price of HK$3.15 per share of the Company on 23 January 2018, being the date of the subscription agreement, a maximum of 38,453,781 ordinary shares of the Company are issuable under the General Mandate. As at 31 December 2018, no shares of the Company has been issued under the February 2018 CB. Details of the February 2018 CB are disclosed in the Company's announcement dated 23 January 2018.

The issue of the above convertible bonds represents an opportunity for the Company to strengthen its capital base and financial position by providing flexibility to the Group in the deployment of its working capital for other business operation of the Group. The issue of the above convertible bonds is an appropriate means of raising capital for the Group since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

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

Under the transaction documents in connection with the issue of the above convertible bonds, Mr. Ke Wentuo, as the guarantor, has undertaken to maintain his status as the single largest shareholder of the Company holding not less than 30% shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the respective transaction documents in connection with the issue of the above convertible bonds (collectively, the "Specific Performance Obligations under the convertible bonds").

A breach of the Specific Performance Obligations under the convertible bonds will constitute an event of default under the convertible bonds, which would entitle the respective bondholders to require the Company to redeem their convertible bonds.

Use of net proceeds from the above convertible bonds

As at the date of this report, the Group had fully utilised the net proceeds from the above convertible bonds, which amounts to approximately HK$517.3 million (equivalent to approximately RMB440.8 million). The actual use of such proceeds is set out in the table below:

Date of announcement	Equity security issued	Net proceeds raised (approximately)	Net price per conversion share	Intended use of net proceeds raised	Actual use of net proceeds raised
16 October 2017	The October 2017 CB issued to Central China International Investment Company Limited on 20 October 2017	HK$194.3 million	HK$4.34 (calculated based on 44,817,927 conversion shares)	The acquisition of the equity interest in Xin Wing Enterprises Limited ("Xin Wing") as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised were wholly utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017
3 November 2017	The November 2017 CB issued to China Silk Road Financial Holding Limited on 13 November 2017	HK$151.9 million	HK$4.849 (calculated based on 31,325,301 conversion shares)	The acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised were wholly utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017
23 January 2018	The February 2018 CB issued to Donghai International Financial Holdings Company Limited on 1 February 2018	HK$171.1 million	HK$4.4495 (calculated based on 38,453,781 conversion shares)	The acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised to the extent of HK$117.0 million were utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and the remaining net proceeds in the amount of HK$54.1 million were used as general working capital of the Group

Dilution effect of the full conversion of Convertible Bonds

Number of shares that may be issued by the Company upon full conversion of the Convertible Bonds

The following table sets out the number of shares that are issuable by the Company in the event that all convertible bonds were converted as at 31 December 2018 assuming they remain outstanding as at that date and the shareholdings held by the respective bondholder in the Company.

	Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB (Notes 1 and 2)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and November 2017 CB (Notes 1 - 4)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, November 2017 CB and February 2018 CB (Notes 1 - 6)	
	Number of shares	%	Number of shares	%	Number of shares	%
October 2017 CB holder	44,817,927	3.48	44,817,927	3.40	44,817,927	3.30
November 2017 CB holder	—	—	31,325,301	2.37	31,325,301	2.31
February 2018 CB holder	—	—	—	—	38,453,781	2.83

Notes:

1. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625
2. The percentage of shareholding is calculated on the basis of 1,287,843,639 Shares, which is the total number of issued share immediately upon exercise in full of theconversion rights attaching to the October 2017 CB.
3. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98
4. The percentage of shareholding is calculated on the basis of 1,319,168,940 Shares, which is the total number of issued share immediately upon exercise in full of theconversion rights attaching to the October 2017 CB and the November 2017 CB.
5. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625
6. The percentage of shareholding is calculated on the basis of 1,357,622,721 Shares, which is the total number of issued share immediately upon exercise in full of theconversion rights attaching to the October 2017 CB, the November 2017 CB and the February 2018 CB.

The following table sets out the dilution effect on the shares of the Company and the respective shareholdings of the substantial shareholders of the Company in the event that all outstanding convertible bonds were converted as at 31 December 2018 assuming they remain outstanding as at that date.

Substantial shareholders	As at 31 December 2018 (Note 1)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB (Notes 2 and 3)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and November 2017 CB (Notes 2 - 5)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, November 2017 CB and February 2018 CB (Notes 2 - 7)	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Smart Port Holdings Limited ("Smart Port")	665,560,500	53.54	665,560,500	51.68	665,560,500	50.45	665,560,500	49.02
Mr. Ke Wentuo (Note 8)	694,237,500	55.85	694,237,500	53.91	694,237,500	52.63	694,237,500	51.14
Ms. Cai Lishuang (Note 9)	694,237,500	55.85	694,237,500	53.91	694,237,500	52.63	694,237,500	51.14

Notes:

1. The percentage of shareholding is calculated on the basis of 1,243,025,712 Shares in issue as at 31 December 2018.

2. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625.

3. The percentage of shareholding is calculated on the basis of 1,287,843,639 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB.

4. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98.

5. The percentage of shareholding is calculated on the basis of 1,319,168,940 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and the November 2017 CB.

6. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625.

7. The percentage of shareholding is calculated on the basis of 1,357,622,721 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, the November 2017 CB and the February 2018 CB.

8. Mr. Ke Wentuo is deemed to be interested in the Shares held by Smart Port by virtue of Smart Port being wholly owned by Mr. KeWentuo. In addition, he is deemed to be interested in 28,677,000 Shares held by Denron International Limited ("Denron"), which is wholly owned by Ms. Cai Lishuang, by virtue of being the spouse of Ms. Cai Lishuang.

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

Dilution impact on earnings per share ("EPS")

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

	RMB
Profit for the year ended 31 December 2018 attributable to owners of the Company	661,041,000
	Number of shares
Number of Company's shares in issue as at 31 December 2018	1,243,025,712
Number of Company's shares in issue upon full conversion of all the convertible bonds as at 31 December 2018 (Notes 1, 2 and 3)	1,357,622,721
	RMB
Basic EPS	0.532
Diluted EPS assuming full conversion of the convertible bonds (Note 4)	Not applicable

Notes:

1. Assuming conversion of October 2017 CB takes place at the initial conversion price of HK$4.4625.
2. Assuming conversion of November 2017 CB takes place at the initial conversion price of HK$4.98.
3. Assuming conversion of February 2018 CB takes place at the initial conversion price of HK$4.4625.
4. No diluted earnings per share was presented, as the exercise of the Group's outstanding convertible bonds would be anti-dilutive.

Financial and liquidity position of the Company

As at 31 December 2018, the Group had net current assets of RMB5.4 million.

Additional information of the convertible bonds issued by the Company are set out in note 27 to the consolidated financial statements.

Based on the financial and liquidity position of the Company, to the best knowledge of the Company, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible bonds issued by the Company.

Bondholders to convert or redeem

In the future, when the price of the shares of the Company is not less than the conversion price of the convertible bonds issued by the Company, the Company believes that it will be equally financially advantageous for the bondholders to convert or redeem the convertible bonds based on their implied internal rate of return.

Unsecured notes

On 13 October 2017, the Company issued one year HIBOR for Hong Kong dollars plus 3.62% guaranteed notes which will be due on 13 October 2019 (extendable to the third anniversary of the issue date), in the aggregate principal amount of US$50.0 million (approximately RMB326 million), payable once every six months in arrears accruing from their issue date. The net proceed raised is US$49.4 million.

On 30 October 2017, the Company issued 6.5% guaranteed notes which will be due on 30 October 2019 (extendable to the third anniversary of the issue date), in the aggregate principal amount of US$25.0 million (approximately RMB163 million), payable once every six months in arrears accruing from their issue date. The net proceed raised is US$24.4 million.

The net proceeds from the issue of the above unsecured notes are used by the Company for or in connection with the acquisition of equity interest in Xin Wing and/or as general working capital of the Group.

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

Under the transaction documents in connection with the issue of the above unsecured notes, Mr. Ke Wentuo, as the guarantor, has undertaken to maintain his status as the single largest shareholder of the Company holding not less than 30% shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the respective transaction documents in connection with the issue of the above unsecured notes (collectively, the "Specific Performance Obligations under the unsecured notes").

A breach of the Specific Performance Obligations under the unsecured notes will constitute an event of default under the unsecured notes which would entitle the noteholder(s) to require the Company to redeem its/their notes.

Liquidity and financial resources

The Group's primary uses of cash are to satisfy our working capital and capital expenditure needs. Our working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations and borrowings.

The Group adopts a prudent cash and financial management policy. The Group's cash and cash equivalents are mainly denominated in Renminbi. The Group's bank and other borrowings, convertible bonds and unsecured notes are mainly denominated in USD and HKD.

As at 31 December 2018, the Group's total equity attributable to owners of the Company amounted to RMB4,436.5 million (As at 31 December 2017: RMB3,792.2 million).

The Group's net current assets was approximately RMB5.4 million (As at 31 December 2017: RMB1,262.9 million) and the Group had cash and cash equivalents of approximately RMB519.6 million (As at 31 December 2017: RMB846.3 million).

As at 31 December 2018, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the year) was approximately 1.0 times (As at 31 December 2017: 1.86 times).

Based on the existing cash and cash equivalents and banking facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its business operations in the coming year.

Foreign currency exposure

The Directors do not consider the exposure to foreign exchange risk being significant to the operation of the Group as it mainly operated in the PRC and most of the Group's transactions, assets and liabilities were denominated in Renminbi. However, given certain bank and other borrowings, convertible bonds and unsecured notes in Hong Kong are denominated in USD or HKD, the Group had a foreign currency hedging contract to hedge against the foreign exchange risk.

Pledge of assets

As at 31 December 2018, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB439.1 million (As at 31 December 2017: RMB460.1 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2018, the Group invested RMB689.3 million (For the year ended 31 December 2017: RMB167.6 million) in construction of production facilities and equipment.

Human resources management

As at 31 December 2018, the Group employed approximately 1,900 staff (As at 31 December 2017: approximately 1,900 staff) and the total remuneration for the year ended 31 December 2018 was amounted to approximately RMB101.7 million (For the year ended 31 December 2017: RMB81.2 million). The Group's remuneration packages commensurate with experiences and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided with adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board does not recommend declaration and payment of any final dividend for the year ended 31 December 2018 (For the year ended 31 December 2017: Nil).

Dividend policy

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

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

Closure of register of member

The register of members of the Company will be closed from 24 May 2019 to 29 May 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 23 May 2019 for registration of transfer.

Executive Directors

Mr. Ke Wentuo (柯文托), aged 62, is the founder of our Group and Chairman of our Company. Mr. Ke was appointed as Executive Director on 12 October 2009. He is primarily responsible for our overall strategies, planning and business development. Mr. Ke graduated and earned a college diploma from Fujian College of Forestry (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr. Ke has more than 15 years of experience in paper manufacturing. Mr. Ke has been a vice president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr. Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Zhangzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議漳州市委員會) since January 2012. Mr. Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making* (中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr. Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr. Ke Jixiong (柯吉熊), aged 35, joined our Group in 2002 and is the chief executive officer of our Company. Mr. Ke Jixiong was appointed as an Executive Director on 6 January 2010. Mr. Ke Jixiong is the son of Mr. Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distant learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr. Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award* (晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference* (中國人民政治協商會議福建省晉江市委員會). He plays an instrumental role in formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and that our production plans, are implemented on schedule, such as introducing de-inking facilities to produce de-inked pulp in house.

Mr. Cao Xu (曹旭), aged 54, joined our Group in 1997 and was appointed as an Executive Director on 6 January 2010. Mr. Cao is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and earned a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr. Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三冶金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr. Zhang Guoduan (張國瑞), aged 55, joined our Group in 2008 and was appointed as an Executive Director on 6 January 2010. In 1998, Mr. Zhang completed an 18-month course at Xiamen University* (廈門大學) majoring in economics and management. Mr. Zhang has 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr. Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

Ms. Lian Bi Yu (連碧玉女士), aged 59, was appointed as an Executive Director on 10 April 2018, she was engaged as a financial manager of trust-investment Company of Quanzhou Branch of Industrial and Commercial Bank of China from 1989 to 1990. She worked as a financial manager of credit department of Licheng District subbranch of Industrial and Commercial Bank of China from 1990 to 1995. She was an administrative officer in charge of personnel of Quanzhou Branch of Industrial and Commercial Bank of China from 1995 to 1997. She has been the Senior Manager of Business in Quanzhou Xingchen Tax Accounting Co. Limited since 2000.

** for identification only*

Independent Non-Executive Directors

Prof. Zhang Daopei (張道沛), aged 82, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Zhang graduated from Dongbei Industrial College* (東北工學院) (now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University* (河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建造紙學會) from 1994 to 2007.

Prof. Chen Lihong (陳禮洪), aged 49, was appointed as an Independent Non-executive Director on11 March 2016. Prof. Chen is a professor at the Fujian University of Technology* (福建工程學院). Prof. Chen also currently serves as the head of the water and wastewater engineering department* (給排水教研室主任) at the College of Ecological Environment and Urban Construction (生態環境與城市建設學院) of Fujian University of Technology. Prof. Chen Lihong also holds several other positions, including the deputy committee member of the Construction and Water Industry Committee of the Engineering, Construction, Science and Technology Standardization Association of Fujian Province* (福建省工程建設科學技術標準化協會建築水工業委員會副主任委員), committee member of the Water and Wastewater Engineering Academic Committee of the Fujian Province Civil Engineering Society* (福建省土建學會給排水學術委員會委員) and a member of the standing committee of the Architectural Society of China Water Supply and Wastewater Association* (中國建築學會建築給水排水研究分會第二屆院校委員會常務委員).

Mr. Chow Kwok Wai (周國偉), aged 51, was appointed as an Independent Non-executive Director on 6 January 2010. Mr. Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr. Chow is also a registered Certified Tax Adviser (註冊稅務師) of the TIHK effective since 7 September 2010. He has over 20 years of experience in accounting, financial management and corporate finance. He is a company secretary of Silver Grant International Industries Limited (stock code: 171), a non-executive director of Cinda International Holdings Limited (stock code: 111) and an independent non-executive director of SSY Group Limited (stock code: 2005), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Senior Management

Mr. Wong Yat Sum (黃一心), aged 42, is our Chief Financial Officer and our Company Secretary. Mr. Wong joined our Group in 2009 and is responsible for the budget, financial management and control of our Group. Mr. Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr. Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. He is a independent non-executive director of Winson Holdings Hong Kong Limited (stock code: 8421) since 21 February 2017. Prior to joining our Group, Mr. Wong was a financial controller for a wood-flooring company in Shanghai, China, where he was responsible for finance, treasury, business planning and risk management.

Mr. Liao Chunxiang (廖春祥), aged 54, is Deputy General Manager of Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"). Mr. Liao joined our Group in 2008 and is responsible for managing manufacturing processes at Huaxiang. As Mr. Liao is also a member of our research and development centre, where he participates in our research and development projects. Mr. Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr. Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr. Ke Hongchi (柯鴻池), aged 44, is Sales Manager of our Group and is responsible for business development and sales. Mr. Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and joined our Group in 1994. Mr. Ke Hongchi is responsible for sales development and the management of the sales team of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Since the establishment of Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Huaxiang in 2006, he has also been responsible for overseeing sales development and managing the sales team of Xiyuan and Huaxiang.

Mr. Chen Changxing (陳長興), aged 55, is Manager of our research and development centre. Mr. Chen joined our Group in 2006 and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr. Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr. Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr. Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr. Shuai Liangming (帥亮明), aged 54, is Quality Control Manager of Huaxiang. Mr. Shuai joined our Group in 2008 and is responsible for quality control at Huaxiang. As Mr. Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr. Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr. Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr. Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr. Wu Xiaoxi (吳曉曦), aged 57, is Head of Electrical Engineering Department of Huaxiang. Mr. Wu joined our Group in 2000 and is responsible for the management of matters relating to electrical engineering at Huaxiang. As Mr. Wu is also member of our research and development centre, he also participates in our research and development projects. Mr. Wu graduated from Fuzhou University* (福州大學) in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr. Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Ms. Yan Yahong (顏雅紅), aged 36, is Deputy Manager of our Purchasing Department. Ms. Yan joined our Group in 2009 and is responsible for raw materials purchasing of our Group. Ms. Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms. Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

The Group is committed to integrating environmental, social and governance ("ESG") factors into its operations in order to create sustainable value for stakeholders and take up the responsibilities as a corporate citizen. The Board is responsible for the evaluation and determination of the Group's ESG-related risks and ensuring that the Group has established an applicable and effective risk management and internal control system related to ESG-related risks. The management reviewed those risks and the effectiveness of the respective internal control system.

This Report highlights the environmental and social policies and performance for the financial year ended 31 December 2018 and covers the principal activities (manufacturing and trading of wrapping tissue paper, wallpaper products, copy paper and other products) of the Group's subsidiaries in Fujian Province, the PRC.

Stakeholders' Engagement

Stakeholders' opinions are the solid foundation for the Group's sustainable development and success. Stakeholders' engagement helps the Group to develop a business strategy that meets the needs and expectations of stakeholders, enhances the ability to identify risk and strengthens relationships. Stakeholders can express their opinions on ESG through various channels. Stakeholders include the Group's employees, customers, suppliers, shareholders, investors, regulatory bodies, media and government agencies. We believe that stakeholders' participation will influence the Group's formulation of strategies for sustainable development and the fulfillment of its social responsibilities and is the basis for the Group's strategy formulation and decision implementation.

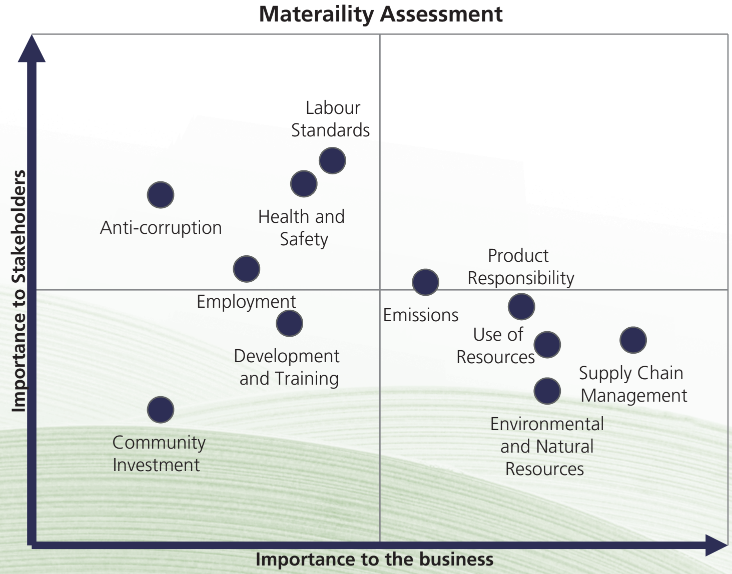
Materiality Assessment

The Group identifies issues for disclosure in this Report through internal and external materiality assessment. By considering the dependence and influence to the Group of the stakeholders and the resources availability of the Group, the management identified key stakeholders and conducted a survey with them. They have expressed their opinions and recommendations on the concerned issues related to the Group's operation.

The management of the Group conducted surveys with those interested parties of high influence and high dependence to the Group. They provided opinions and suggestions on the environmental and social issues related to the operations of the Group.

By consolidating the results of the internal assessment and the survey, the Group has compiled the materiality matrix (see diagram below). The extent of disclosure for each issue in the Report is based on the importance of such issue to the business and stakeholders.

Materaility Assessment



Environmental Aspects

The Group attaches great importance to the impact of business operations on the environment, the ecosystem and related potential risks. Our environmental management approach aims to strictly abide by or even beyond the standards stipulated by the national and local environmental laws and regulations. We adhere to the principle "Reduction of Waste for the Society, Start from Me" and implement waste recycling. The manufacturing plants have obtained emission permits and ISO14001 environmental management system certification.

Emissions

The Group strictly manages "Three Wastes" (refers to wastewater, exhaust gas and solid waste). The manufacturing plants have already established relevant systems including "Environmental Protection Management System", and strictly abide by relevant environmental standards, laws and regulations, such as "Environmental Protection Law of the People's Republic of China", "Water Pollution Prevention and Control Law of the People's Republic of China", "Environmental Impact Assessment Law of the People's Republic of China", "Air Pollution Prevention and Control Law of the People's Republic of China", "Solid Wastes Prevention and Control Law of the People's Republic of China", "Environmental Protection Tax Law of the People's Republic of China", "Boiler Air Pollutant Emission Standards" GB13271-2014, "Pulp and Paper Industry Water Pollutant Emission Standards" DB35/1310-2013, "Sewage Discharge into Urban Sewer Water Quality Standards" GB/T 31962-2015 and "Environmental Noise Emission Standards for Industrial Enterprises Boundary" GB12348-2008. During the reporting period, the Group did not aware of any significant non-compliance with related laws and regulations.

Air Pollutant Emissions

The emission of air pollutants mainly comes from the use of steam boilers of the manufacturing plants and company vehicles. The data of air pollutant emissions[1] are as follows:

Air Pollutants	2018 tonnes	2017 tonnes
Nitrogen oxides	93.41	232.96
Sulphur oxides	149.75	140.58
Particulate Matter	17.62	139.84

In order to control the respective emissions, steam boilers at the wrapping paper manufacturing plants are all equipped with emission reduction equipment to ensure the emissions are within the emission standards stipulated by the related laws and regulations. The manufacturing plants have installed selective non-catalytic reduction equipment, electrostatic precipitators and dual-alkali desulphurisation system to reduce the emission of nitrogen oxides, particulate matter and sulphur dioxide respectively. During the reporting period, we extended the steam pipes of Huaxiang's manufacturing plants to Youlanfa's and removed two boilers as in Youlanfa so as to generate steam centrally, hence increased the resources consumption efficiency and reduced the related emissions.

1 The data are extracted from self-monitoring reports. Some of the manufacturing plants do not have the same, thus data are estimated based on the following information: "The First National Pollution Source Survey - Manual on Industrial Pollution Emissions Factors" and "Technical Guidelines for the Preparation of Air Emissions of Road Vehicles". Estimated data may deviate from the actual emissions, we will strive to improve the accuracy of these data.

Greenhouse Gas ("GHG") Emission

We are committed to taking initiatives in response to climate change and striving to reduce risks with the most effective measures. The Group has taken actions to reduce GHG emissions generated from the business operations. We have implemented the energy conservation measures described in the "Use of Resources" section. Scope 1 emission was reduced by 30% because of the reduction of coal consumption. Data of GHG emissions[2] are as follows:

	2018	**2017**
GHG Emissions	**tonnes of CO2 equivalent**	
Scope 1[3]	190,600.16	272,697.86
Scope 2[4]	185,632.36	192,925.46
GHG Emission Intensity (per tonne of products' raw materials[5])	1.01	1.76

Sewage and Solid Waste

The sewage and sludge mainly arise from the pulping and spreading process. Sewage collection and piping systems for recycling are bult in all the manufacturing plants, using biochemical and other advanced techniques for sewage treatment. In order to comply with applicable laws and regulations, we have obtained all necessary permits in respect of wastewater discharge and solid waste disposal. The plants are subject to environmental inspection conducted by the government agencies and has never been charged with serious violations of any Chinese environmental laws or regulations, or has to pay any fines therefor. The discharged volume of the sewage and its pollutants are as follows:

	2018[6]	**2017[6]**
Sewage	**million tonnes**	**million tonnes**
Sewage	1.64	1.36

	2018[6]	**2017[6]**
Sewage Pollutants	**tonnes**	**tonnes**
Ammonia nitrogen	1.067	0.700
Chemical oxygen demand	40.148	27.404
Biochemical oxygen demand	Not applicable	2.598
Suspended solids	Not applicable	1.417
Total nitrogen	2.329	0.495
Total phosphorus	Not applicable	0.002

In addition, the Group's solid waste is mainly non-hazardous waste generated during paper manufacturing. Waste includes fuel residual, domestic wastes and sludge. Based on the concept of implementing a recycling economy, the Group aims to maximise the recycling of solid waste by strengthening technological innovation and improving recycling facilities for comprehensive utilisation of resources. The manufacturing plants have temporary stacking sites for solid wastes with designated personnel categorising the wastes into recyclable and non-recyclable. Domestic waste, slag and sludge are collected and handled by third-party waste disposers.

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2 The Group's calculation of GHG emissions is based on "The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standards".
3 Scope 1: Direct emissions from operations that are owned or controlled by the Group, mainly from steam boilers and company vehicle fuel use.
4 Scope 2: "Indirect energy" emissions resulting from internal consumption by the Group, mainly from electricity consumption.
5 Raw materials include pulp, backing paper, non-woven paper and type II cloth.
6 2018 data included Youlanfa, Xiyuan and Huaxiang; 2017 data included Youlanfa and Xiyuan.

Sludge is the residual from pressurised filtration and dewatering process which contains a large amount of suspended and soluble organic solids, such as fibres, fillers and rubber compounds, and some inorganic solids. Some of the sludge contains fine fibres and pulp, which can be extracted through filtration and purification in order to recycle and reuse during the manufacturing process. The data of solid wastes is as follows:

Solid Waste	2018 tonnes	2017 tonnes
Sludge	7,012.90	2,601.35
Coal ash, cinder	12,482.25	16,682.12
Domestic waste	746.68	741.01
Intensity (per tonne of products' raw materials)	0.05	0.08

Use of Resources

In order to achieve sustainable use of resources, the Group starts from the basics, such as promoting water-saving and electricity-saving awareness through campaigns and using water-saving and energy-saving machinery and equipment. Moreover, we have established an "Energy Management System".

Water Saving

For water consumption, the Group adheres to the "Water Consumption Quota for Paper Products" GB/T 18916.5-2012. Water for production use is supplied by third-party suppliers and purified sewage, there is no significant issue in sourcing applicable water supplies.

The manufacturing plants are equipped with sewage recycling system to collect sewage generated during deinking process and white water generated during production process[7]. Sewage is first collected in a tank for air flotation for removing suspended solids. The sewage is then flowed to the recycle tank for further filtration. It will be reused in the production after treatment. Coal-fired boilers are equipped with condensed water recycling system, maximising the use of heat from condensed water, meanwhile saving the use of water and coal.

To enhance the promotion of water conservation, the Group sticks up posters about water conservation at its offices and workshops to boost staff's awareness and consciously develop water-saving practice. Control valves are also installed on the taps to control water flow so as to reduce the wastage. Office and domestic water is recycled to the greatest extent. Manufacturing plants are equipped with water-saving equipment, advanced water saving technology and production process, and enhance routine check and maintenance of water equipment, pipelines, tanks and other facilities and fix the leakage in a timely manner. Water consumption data are as follows:

Water	2018 tonnes	2017 tonnes
Water consumption	3,482,466	3,160,795
Intensity (per tonne of products' raw materials)	9.33	11.94

7 White water refers to the wastewater produced during the papermaking process. Due to the presence of fine fibres, fillers and bubbles, the water appears white in colour.

Energy Saving

For electricity consumption, the Group uses energy-efficient lighting system and low-electricity consumption mechanical equipment and increases the number of inverters to reduce electricity consumption. The Group actively improves the operation model, enhances the level of electricity management standard, reduces pulp grinding time for power saving by optimises the combination of using different abrasive discs and upgrades production lines. In addition, we have also put great efforts to promote energy saving through the following measures:

- Stick up posters about energy saving at offices and workshops to strengthen employees' knowledge of power saving
- Install timers in the lighting system to forbid unreasonable consumption
- Use electrical appliance with high efficiency and low power consumption such as LED lights to eliminate ordinary incandescent bulbs
- Replace old air conditioner with energy-saving model
- Set air conditioners to 26℃ when using

For fuels consumption, circulating fluidised bed boilers are used to improve the combustion efficiency of coal. Such boilers are also equipped with residual heat recovery system for better heat usage, reduce the consumption of coal. In addition, the Group strictly controls the quality of coal to ensure complete and effective combustion and builds a robust coal stockpile to prevent coal loss due to wind erosion. Boiler operators strictly adhere to operating manuals to improve the utilisation rate of coal, thereby reducing unnecessary wastage. The consumption of varies type of energy are as follows:

	2018	2017
Energy Consumption	**MWh**	**MWh**
Raw Coal	509,016	781,587
Diesel	459	205
Gasoline	604	458
Electricity	263,870	289,200
Natural Gas	77,446	20,262
Intensity (per tonne of products' raw materials)	2.28	4.12

Raw Materials

The Group strictly controls storage of and access to raw materials and uses energy-saving facilities to ensure raw materials are effectively used. The Group is one of the few companies in the PRC that capable to produce recycled raw materials for production (mainly deinked pulp). The Group is equipped with three sets of deinking equipment with an annual production capacity of approximately 176,000 tonnes. Such equipment can remove printing ink and colour from waste paper, convert waste paper into pulp and reduce the use of wood pulp.

Paper and Packaging Materials

The Group understands that paper used and disposal of packaging materials are becoming challenging environmental issues. As a wrapping paper manufacturer, the Group has simplified its own packaging design to strike a balance between economic and environmental benefits.

The Group also educates its employees not to waste packaging materials in the packaging process. Therefore, pre-service training is implemented so as to reduce the waste of packaging materials when the employees are on duty. In addition, we have also been working with the Chinese government to promote the use of more environmental friendly packaging materials, and will also focus on developing technology for paper recycling in future research activities.

In order to standardise materials management of the Group, improve the utilisation rate of packaging materials, reduce the costs of packaging materials and unreasonable losses and avoid pollution and damage caused by packaging materials to the environment, the Group has formulated the "Packaging Materials Management System." Packaging materials should be selected from materials that can be widely sourced, conveniently acquired, low in cost, recyclable, degradable and non-polluting during processing.

If packaging materials that cannot be reused due to damage, pleats, etc., they should be handled centrally in a timely manner and should not be stacked or discarded at will. All unusable packaging materials can be pulped and should be recycled as much as possible. The consumption of packaging materials[8] is as follows:

Packaging Material	2018 tonnes	2017 tonnes
Paper[9]	6,143	5,661
Plastic[10]	980	871
Metal[11]	11	29

The Environment and Natural Resources

The Group attaches great importance to environmental issues and the use of natural resources. The Group highly appreciates the use of resources, promotes environmental protection ideas, such as energy conservation, emission reduction and the efficient use of natural resources. Apart from paper, the Group requires its manufacturing plants to recycle various packaging and production materials, including paper tubes, cartons, hairy tubes, hoses, scrapped iron and copper and packaging bags, etc. The Group attaches great importance to greening works of its operating area, the green area of the manufacturing plants is relatively high. In addition, most of the outdoor lighting systems in manufacturing plant area use solar energy storage systems to make good use of solar energy and thereby indirectly saving energy. In order to reduce the generation of solid waste, the Group requires employees to reduce food waste.

Three of the Group's manufacturing plants have obtained the Chain of Custody certification from the Forest Stewardship Council (FSC), which certifies the manufacturing plants' purchase of paper pulp, manufacturing and sales of paper and toilet paper have achieved FSC 100% and FSC MIX labelling certification. FSC certification represents the materials used are all produced from well-managed forests or other regulated resources. In addition, in order to increase employees' awareness of environmental protection, the Group voluntarily clean up street and garbage in the community from time to time and participate in local tree planting activities.

8 Due to wide variety of packaging materials, only materials recorded in weight unit are listed.
9 It includes blue cardboard, paper tube, refined kraft paper, moisture-proof paper, medium strong corrugated paper, kraft liner.
10 It includes woven bags, plastic strips, shrink films, straps, straps and packing buckles.
11 It includes bailing hoops.

Social Aspects

Employment and Labour Practices

Employment

The Group believes employees are one of the most important assets. As the business is growing, it is necessary to build sustainable human capital by recruiting and retaining talents and creating a healthy and safe working environment.

The Group strictly abides by the "Labour Law of the People's Republic of China", the "Employment Promotion Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China", the "Social Insurance Law of the People's Republic of China", the "Regulations on Labour Security Supervision", the "Decision of the State Council on Revising the Provisions of the State Council on Working Hours of Workers and Staff", the "Minimum Wage Regulations" and other relevant labour laws and regulations. During the reporting period, the Group did not find any major non-compliance with relevant laws and regulations.

Recruitment and Promotion

The Group has formulated the "Recruitment Management System". We recruit with the concept of "Integrity and Ability, Integrity First and Growth Together" to ensure that all candidates receive legitimate and equal opportunities. Through internal competition, the Group creates an echelon of talents to expand staff promotion channel and rooms for development, so as to enhance staff resources of the Group. Performance appraisal meetings are regularly held to offer promotion opportunities for the capable and hard-working staff. In terms of training, we develop training programs and courses based on different departments and types of work and evaluate the effectiveness of the training after conducted. The Group also regularly assigns staff members to conduct outreach training to enhance their knowledge, skills and techniques related to their duties.

Working Hours and Holidays

Working days for normal employees of the Group are implemented according to the "Attendance Management Measures" and those for sales personnel are scheduled based on customers' demand subject to the consent of supervisors. Employees enjoy day-off on national holidays and other leaves pursuant to the relevant national regulations. In light of production and operation needs, the Group may require its employees to work overtime beyond their regular working hours or during holidays within the scope specified by the Labour Law, overtime pay or compensated leave will be arranged in accordance with the Labour Law. If overtime work is required, the department head should fill in an "Overtime Work Application Form" in advance for human resource and administration department approval before execution.

Remuneration and Termination

The remuneration packages provided by the Group to its employees include salaries, bonuses and other cash subsidies. In general, we determine the salary of employees based on their respective qualifications, positions and seniority. We have conceived an annual assessment system to assess the performance of employees. Such assessment results are used to determine the staff's salary increment, bonus and promotion. In order to improve the remuneration and reward and punishment system, the Group has formulated the "Management Measures on Remuneration of Employee"and the remuneration benchmark, which differentiates basic remuneration levels in accordance with roles, number of working years, technical skills, job duties and so on in order to give employees competitive remuneration packages. Employee benefits, working hours and rest time are clearly stated in the employment contracts, while permanent employment contracts, contracted employment contracts and secondment contracts are signed pursuant to local employment laws.

If an employee resigns during probation period or is terminated due to failure to satisfy the Group's requirement, such employee or the respective department shall give one-week notice and shall come into effect upon the approval by the management concerned, and the human resource and administration department shall urge the employee to follow the dismissal procedures pursuant to the related resignation process. After an employee becomes a permanent staff member, the employee who is in violation of the employment contract will be dismissed or counselled out with one-month written notice and will be paid according to the Labour Law. Permanent staff member shall give one-month notice to the department where he works in case of resignation, the manager of which shall then notify the human resource and administration department.

Equal Opportunities, Diversity and Anti-Discrimination

The Group respects equality and ensures the welfare, promotion, evaluation, training and staff development will not be discriminated or adversely affected due to races, religion, gender, nationality, age and disability. No unfair or unreasonable dismissal will be made and all termination of labour relations with employees will be carried out in strict compliance with the local labour laws and regulations.

The Group actively communicates with its employees through various channels, including posters on a notice board, e-mails, employee handbook, managers' meetings, chief executive's mailbox, internal audit hotline and complaints hotline.

Other Welfares and Benefits

The Group provides five types of national statutory social insurances(including basic pension insurance, basic medical insurance, work injury insurance, maternity insurance and unemployment insurance) in accordance with the employment regulations in the PRC. Moreover, the Group implements family-friendly practices. We organise after-school activities and summer camps for employees' children so they are well taken care of, which helps employees focus on work without concern.

During the reporting period, the Group actively organised different employee activities, including Spring Festival trip, youth networking activities, and condolences to employees.

The staff distribution and turnover rate of the employees[12] of the manufacturing plants in Fujian Province, the PRC are as follows:

Staff Distribution	**2018**	**2017**
By gender		
Male	1,201	1,232
Female	697	665
Total	**1,898**	**1,897**
By age		
29 or below	349	367
30-39	516	518
40-49	676	690
50 or above	357	322
Total	**1,898**	**1,897**
By position		
Assistant general manager or above	14	15
Senior manager	1	1
Manager	21	25
Assistant manager	50	43
General staff	237	279
Operation staff	1,575	1,534
Total	**1,898**	**1,897**

[12] Including employees on secondment

Turnover Rate	2018	2017
By gender		
Male	49%	49%
Female	35%	37%
By age		
29 or below	60%	73%
30-39	41%	40%
40-49	40%	36%
50 or above	40%	36%
Overall	**44%**	**45%**

Health and safety

The Group's motto is "Safety first, Health first". It is committed to maintaining the health of employees and offering them a safe working environment. The Group strictly abides by relevant laws and regulations such as "Production Safety Law of the People's Republic of China" and "Prevention and Control of Occupational Diseases Law of the People's Republic of China". It has also set up the relevant management system for its business operation. During the reporting period, the Group did not aware of significant non-compliance with related laws and regulations.

We are committed to providing employees with a clean, non-smoking, healthy and safe working environment. We have established "Occupational Health Management System", under which annual medical checks for staff are organised. Besides, 6S safety evaluation is conducted monthly, while daily cleaning is arranged in the workplace to ensure that the working environment is clean and tidy. All emergency exits in the workplace are kept clear and unlocked.

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

The Group regularly holds fire drills, cooperates with the Jinjiang Municipal Government to organise civil air defence evacuation drills, and organises monthly safety training and weekly safety meetings.

The Group provides pre-employment training relating to health and safety to employees. Moreover, we also provide training related to emergency management, machine operation and hazardous materials handling to the relevant employees to improve their safety awareness, avoid accidents and prevent occupational diseases. For instance, employees who are exposed to noise need to wear earplugs, employees who are exposed to dust are urged to wear dust masks and employees who are exposed to radiation hazards are required to wear good radiation dose cards to monitor whether the dose exceeds safety standards. Meanwhile, specialised personnel is put in charge of safety management to minimise hidden dangers swiftly.

During the reporting period, the Group provided health check-ups and health care classes for female employees to improve their knowledge related to cervical cancer and HPV prevention, prevention of common gynaecological diseases and other women's health. In addition, the manufacturing plants organised training for management about safety production, safety training for pressure-bearing special equipment, safety and energy conservation training, and safety management responsible for review training. The Group did not have any case of work-related injury or fatality as well as the loss of working days due to work injury.

Development and Training

The Group attaches great importance to the career development of each employee and sets up corresponding training plans to enhance their skills. We develop training plans and courses according to different departments and jobs and evaluate the performance of employees after completion. We also regularly assign some employees to conduct expatriate training to enhance the knowledge, skills and skills relevant to their current duties or work.

The Group provides on-the-job training for newly recruited employees and ongoing training for current employees. We regularly organise on-the-job training, which includes corporate culture, company's rules and regulations, internal rules on safety, sales techniques and career development. The trainings aim to improve the overall quality of employees and the management skills of middle and senior management.

Furthermore, the Group also organises wholly-subsidised external training programs. Each year, the Group's financial staff members conduct continuing education for accountants on the Fujian Provincial Accounting Information Network. During the reporting period, the Group continued to educate the technical staff of the SME Service Centre and provided training related to revised national emission permit. The percentage of participants and the average training hours are as follows:

Percentage of Participants	**2018**	**2017**
By gender		
Male	79%	74%
Female	72%	58%
By position		
Assistant general manager and above	14%	20%
Senior manager	0%	0%
Manager	81%	64%
Assistant manager	104%	121%
General staff	59%	34%
Operation staff	79%	74%

Average Training Hours (hours/person)	**2018**	**2017**
By gender		
Male	3.70	3.66
Female	3.64	2.90
By position		
Assistant general manager and above	0.43	2.33
Senior manager	—	—
Manager	3.86	2.56
Assistant manager	4.18	4.84
General staff	2.90	1.57
Operating staff	3.81	3.71

Labour Standards

The Group strictly prohibits child labours and forced labours and abides by the "Labour Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China", the "Regulations on the Prohibition of Child Labour in the People's Republic of China", the "Law of the People's Republic of China on the Protection of Minors" and other relevant labour laws and regulations. The Group's human resources department reviews the application information of applicants in the recruitment process according to the employment procedures to ensure that the age of applicants meets the requirements of laws and regulations. We also conduct interviews before employment to ensure that they are not forced labour. We will not hire applicants under the age of 16. If any employee is found to be under 16-year-old, human resource department will immediately stop the employee refrain from work, terminate the employment contract and send one back to one's custodian. During the reporting period, the Group did not employ any child or forced labour and did not aware significant non-compliance with related laws and regulations.

Operating Practices

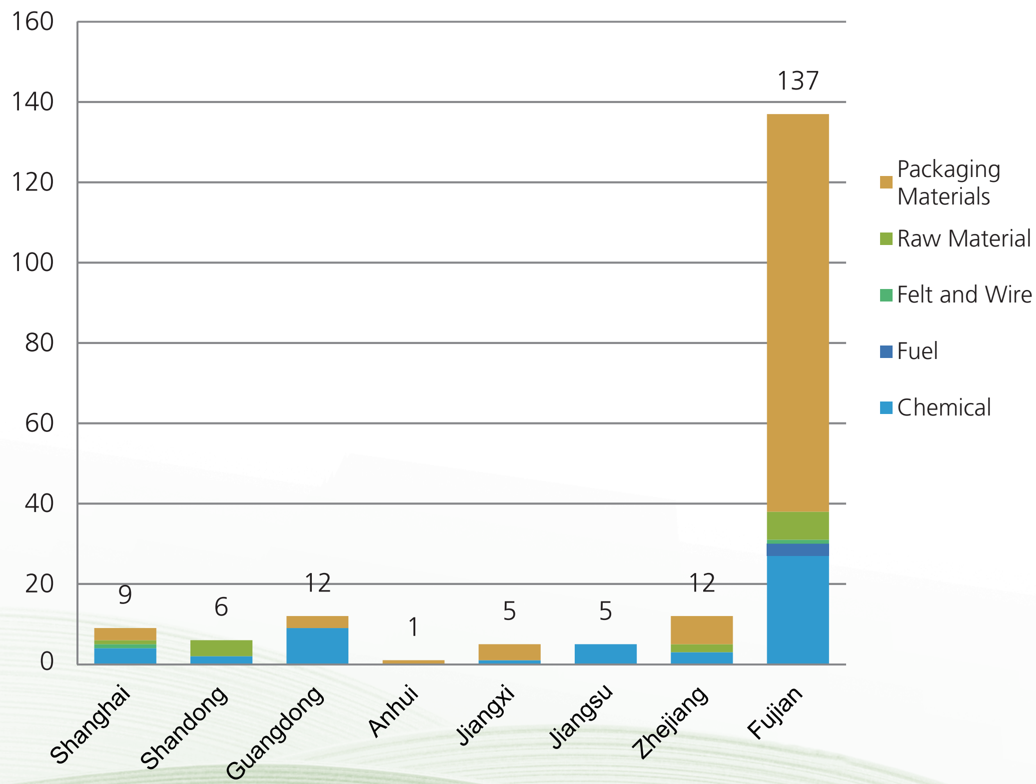
Supply Chain Management

The Group's suppliers can be divided into raw material suppliers, auxiliary material packaging material suppliers and hardware equipment suppliers. Pulp is a principal raw material for production. Other than wood pulp, we also use deinked pulp in order to save cost and reduce the impact on the environment. In addition, we directly purchase coal from the local coal mines in Fujian Province in order to reduce the procurement cost.

The Group has formulated and implemented the "Supplier Management Approach" so as to select sustainable suppliers, conduct thorough inspection of potential suppliers and adopt a supplier evaluation mechanism. In order to prevent any non-compliant suppliers, suppliers are required to provide relevant supporting documents during the inspection period. Qualified suppliers will be listed as eligible suppliers. Currently, all suppliers of the Group obtain ISO9001 quality system certification, ISO14001 environment system certification and FSC forest management system certification. We conduct annual assessment of the suppliers to evaluate their performances in terms of product qualification rate, the rate of timely arrival, after-sales service and timeliness, etc.

Currently, raw and auxiliary materials are generally provided by two to three long-term suppliers to ensure a stable supply. We have procurement personnel to monitor the market so as to seize opportunity for bargain purchases to reduce raw and auxiliary material costs. The geographical distribution of relevant suppliers during the reporting period is as follows:

Suppliers by geographical locations



Product Responsibility

The Group's products mainly include wrapping tissue paper, wallpaper, wall backing paper and copy paper. The Group believes that effective quality control initiatives are extremely important to the sustainable development of the business. We have implemented a comprehensive and effective quality control system covering all aspects of procurement and production. All the manufacturing plants have obtained ISO 9001 certification for the quality management system. The Group strictly abides by laws and regulations relating to health and safety, advertising, labelling and privacy that associated with products and services, including the "Advertising Law of the People's Republic of China", the "Safety Production Law of the People's Republic of China", the "Regulations on Industrial Injury Insurance", the "Product Quality Law of the People's Republic of China", and the "Law of the People's Republic of China on Consumer Rights Protection". During the reporting period, the Group did not aware of any significant non-compliance with related laws and regulations.

Quality Assurance Process

The Group attaches great importance to the product quality and credibility under the principle of "Win-Win Solution for Both Staff and Customers". To strengthen the monitoring of product quality, the Group has developed and implemented the "Quality Management System" to achieve comprehensive quality management throughout the entire production process from procurement of raw materials to delivery of finished products and detailed inspection of key aspects. Meanwhile, we have developed the "Product Quality Inspection Standards" stating that operators must operate according to standards and be responsible for the quality of the product. In addition, some production lines are equipped with online monitoring system which automatically identifies non-conforming products. Upon the products leave the production lines, quality inspection personnel will conduct a random inspection, any non-conforming products will not be put into storage for sales. Quality management can be divided into four stages:

1. Raw Materials
   Upon receipt raw materials, personnel of the R&D department conducts random inspections. Qualified materials are handled by the warehouse personnel while non-conforming materials are rejected.

2. Pulp
   Quality controller conducts sample testing every two hours. If the pulp does not meet the standard, quality controller will notify the pulp worker promptly so that it can be rectified.

3. Semi-products
   Quality controller inspects the quantity, moisture, whiteness and cracks length of the semi-products.

4. Finished products
   Quality controller inspects the quantity, skewness, dimensional deviation, number of sheets error and appearance of the finished product.

As for manufacturing of wrapping tissue paper, samples of wood pulp, paper webs and finished paper rolls will be sampled checked at different stages of production for various characteristics tests, including strength, thickness, humidity, whiteness and basis weight to ensure meeting the specifications required.

For the manufacturing of copy paper, the production process is controlled and monitored by a decentralised computer control system after raw materials are input into the pulping equipment. All copy paper machines are equipped with an automated quality control system to monitor the moisture content, basis weight, coating weight and thickness so that we can maintain consistent quality, enhance production efficiency and minimise disruption of production processes.

All defective products will be recalled, and the quality control department will conduct investigation and analysis of the products in strict compliance with relevant laws and regulations, such as the "Measures for the Administration of the Recall of Defective Consumer Goods" and the "Product Quality Law and the Protection of Consumer Rights", and set up practicable preventive and corrective measures.

In the event of complaint relating to product quality, the sales department is responsible for handling the case and record relevant information. The quality control department or other relevant departments analyse the cause of the complaint, determine the responsible department and the handling method, and report the results to the relevant production team. Complaints are generally processed within fifteen days of acceptance. We will exchange the products that have been confirmed to be defective. During the reporting period, we have not encountered any significant return of goods and have not received any complaints related to product quality.

Regarding product advertising and labelling policies, the Group's legal officers are responsible for providing legal advice and supervision. In case there is any inaccurate or misleading advertisement or labelling, the related advertisement will be ceased to publish and the labelling of the product will be replaced. The Group has also established a customer complaint hotline, and whenever the Company should take the responsibility, a salesperson will go to the site to check the products that the customers have complained about and find out the causes of the problems.

Intellectual Property, Consumer Information and Privacy Protection

The Group has been committed to technology research and development and has long-term cooperation with a number of research and educational institutions to develop environmentally friendly packaging materials. Three of our subsidiaries were awarded the "High-tech Enterprise Certificate".

The Group is committed to maintaining and safeguarding our intellectual property rights in the PRC and has registered a number of trademarks and patents in accordance with the relevant laws and regulations, such as the "Patent Law of the People's Republic of China", the "Law of Intellectual Property Rights of the People's Republic of China", the "Tort Law of the People's Republic of China" and the "Agreement on Trade-Related Aspects of Intellectual Property Rights". In addition, we have implemented measures to protect the relevant expertise, including the confidential and non-competitive commitments by the technical and management personnel to ensure that the relevant expertise will not leak to our competitors. During the reporting period, the Group obtained more than 40 authorised patents, including manufacturing technology, manufacturing equipment and product design.

On the other hand, we have complied with "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" and established a clear scope of protection and the access right of customers' information, and strictly abide by the laws and regulations on protection of customer information and privacy policy. Customer data are stored in the archive room and kept by specific personnel.

Anti-corruption

The Group has always adhered to the highest ethical standards and strictly abide by the local laws and regulations relating to anti-corruption, including the "Anti-Money Laundering Law of the People's Republic of China", the "Article 274 of the Criminal Law of the People's Republic of China on the Extortion and Blackmail" and the "Interim Provisions on Banning Commercial Bribery". Besides, procuratorate officers are invited to conduct relevant educational seminars on professional integrity. During the reporting period, the Group did not aware of significant non-compliance with related laws and regulations.

We have formulated and implemented the "Anti-corruption Measures" and have established a comprehensive whistle-blowing channel. Employees can report fraud behaviours to the Group through the chief executive's mailbox, the complaint hotlines for suppliers, customers and employees, the internal audit department, e-mail, face-to-face meeting and letters, etc. If employees are found to engage in corruption, the case will be filed to applicable judicial bodies and handled in accordance with the amount of money involved.

Community

Community Investment

The Group is committed to promoting the sustainable development of the business and the community, thus actively contributing to education and environmental aspects. Mr. Ke Wentuo, Chairman of the Board of Directors of the Group, currently the Honorary Vice President of the Jinjiang Charity Federation and Honorary President of the First Council of Jinjiang City Patriotic Army Promotion Association, has established the Youlanfa Charitable Foundation. Over the past years, he has made countless donations and has continued to provide funds for a number of community welfare activities in his own name.

In addition, we will also organise donation events to provide assistance to employees who have difficulties subject to the circumstances of employees. During the reporting period, Xiyuan labour union participated in 2018 Zhangzhou Taiwanese Investment Zone Education Sponsorship Programme to provide certain financial subsidies for the children of employees with difficulties. Moreover, the labour union also participated in the blood donation activities organised by the Zhangzhou City Blood Centre to promote selfless dedication.

Looking ahead, the Group will continue actively supporting the charitable activities jointly organised by the local government and schools for the benefit of the community.

CORPORATE GOVERNANCE REPORT

Corporate Governance Code

Our Company has adopted the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. For the year ended 31 December 2018 (the "Review Period"), our Directors consider that our Company has complied with all the code provisions as set out in the CG Code, except for a deviation from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders of the Company (the "Shareholders"). Due to other pre-arranged business commitments, Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the annual general meeting of the Company held on 23 May 2018.

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

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

Model Code for Securities Transactions

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

Board of Directors

(i) Board Composition

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

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

Executive directors
Mr. Ke Wentuo *(Chairman)*
Mr. Ke Jixiong *(Chief Executive Officer)*
Mr. Cao Xu
Mr. Zhang Guoduan
Ms. Lian Bi Yu *(appointed on 10 April 2018)*

Independent non-executive directors
Prof. Zhang Daopei
Prof. Chen Lihong
Mr. Chow Kwok Wai

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

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

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

(ii) Board Functions and Duties

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

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

(iii) Board Meetings

During the Review Period, there were seven board meetings held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2017 and the interim results for the six months ended 30 June 2018.

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

(iv) Attendance Record

The following is the attendance record of the Board meetings held by the Board and general meeting of the Company during the Review Period:

	Attendance	
	board meetings	**general meeting**
Executive directors		
Mr. Ke Wentuo *(Chairman)*	7/7	1/1
Mr. Ke Jixiong *(Chief Executive Officer)*	7/7	1/1
Mr. Cao Xu	7/7	0/1
Mr. Zhang Guoduan	7/7	0/1
Ms. Lian Bi Yu	1/4	0/1
Independent non-executive directors		
Prof. Zhang Daopei	5/5	0/1
Prof. Chen Lihong	5/5	0/1
Mr. Chow Kwok Wai	4/5	1/1

(v) Independent Non-executive Directors

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

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

(vi) Appointment and Re-election of Directors

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

Mr. Ke Wentuo and Prof. Chen Lihong will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("2019 AGM") and, are eligible to offer themselves for re-election.

Furthermore, according to code provision A.4.3 set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, if an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. Given that Prof. Zhang Daopei and Mr. Chow Kwok Wai have been serving as independent non- executive Director for more than 9 years, their re-election and further appointment as independent non-executive Director will be subject to separate resolutions to be considered and, if thought fit, approved by the Shareholders at the 2019 AGM.

(vii) Terms of appointment of Directors

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a term of three years renewable upon expiry in both cases, subject to compliance of the Listing Rules and the Articles. Each of the executive Directors, except Ms. Lian Bi Yu, has entered into a service contract with the Company on 30 April 2016 for a term of three years to be renewed on 30 April 2019, whereas Ms. Lian Bi Yu has entered into a service contract with the Company on 10 April 2018 for a term of three years. Each of the independent non-executive Directors, except Prof. Chen Lihong, has entered into a service contract with the Company on 30 April 2016 for a term of three years to be renewed on 30 April 2019, whereas Prof. Chen Lihong has entered into a service contract with the Company on 11 March 2019 for a term of three years.

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

(viii) Directors' Remuneration

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

(ix) Directors' Training

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

The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, function and duties of the Directors.

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

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

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

Audit Committee

Our Company has established an audit committee on 30 April 2010 with revised written terms of reference based upon the provisions and recommended practices of the CG Code adopted on 27 January 2016 and 31 December 2018. The primary responsibilities of our audit committee are to, among other things, review and supervise financial reporting processes, risk management and internal control systems of the Group. As at 31 December 2018, our audit committee comprised Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of our audit committee.

During the Review Period, the audit committee had held two meetings and subsequently held a meeting on 28 March 2019. The members of the audit committee reviewed and discussed with the external auditors of the Company the Group's audited financial statements for the years ended 31 December 2017 and 2018 and the unaudited interim financial statements for the six months ended 30 June 2018. They were of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

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

	Attendance at meetings
Mr. Chow Kwok Wai (Chairman)	2/2
Prof. Zhang Daopei	2/2
Prof. Chen Lihong	2/2

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

Auditor's Remuneration

The total fee paid/payable to the external auditor of our Group, RSM Hong Kong, was approximately RMB2.8 million and RMB0.3 million for the audit services and non-auditing services respectively for the year ended 31 December 2018. Non-auditing services mainly included review services on environmental, social and governance report. The audit committee is of the view that the auditors' independence is not affected by the services rendered.

Company Secretary

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

Directors' Responsibility on the Financial Statements

Our Directors acknowledge that it is their responsibility to prepare accounts of our Group and other financial disclosures required under the Listing Rules, in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards, using and applying consistently suitable accounting policies and making reasonable and prudent judgement and estimates. Our Board is not aware of any material uncertainties relating to events or conditions that may affect the business of our Group or cast doubts on our ability to continue as going concern.

The management will provide information and explanation to our Board to enable it to make informed assessments of the financial and other decisions.

Risk Management and Internal Control

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

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

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

For the year ended 31 December 2018, our Board considered that the risk management and internal control systems of our Group were adequate and effective and our Company had complied with the code provisions on risk management and internal control as set out in the CG Code during the Review Period.

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the CG Code. As at 31 December 2018, the nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr. Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee.

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

Before a prospective director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on. among other factors, reputation for integrity, accomplishment and experience, time and availability, independence, diversity, board succession planning as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

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

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

	Attendance at meeting
Prof. Zhang Daopei *(Chairman)*	1/1
Pro. Chen Lihong	1/1
Mr. Ke Wentuo	1/1

Board Diversity Policy

Pursuant to the code provisions of the CG Code relating to board diversity, the Board approved a board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of Director candidates will be based on our nomination policy, taking into account our Board Diversity Policy, which contains a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. Our Nomination Committee will monitor the implementation of the Board Diversity Policy by conducting review of the Board's composition at least once annually taking into account the benefits of all relevant diversity aspects, and complying with the Board Diversity Policy when making recommendation on any appointment of the directors to the Board. For the year ended 31 December 2018, the Nomination Committee considered that the implementation of our Board Diversity Policy were adequate and effective.

Nomination Policy

Pursuant to the code provisions of the CG Code relating to the nomination of directors, the Board approved a nomination policy (the "Nomination Policy") in December 2018.

Nomination procedures

The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from members of the Board if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by members of the Board.

For filling a casual vacancy or appointing an additional member to the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval.

For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

A circular will be sent to the shareholders of the Company to provide them with the name, brief biography, proposed remuneration, (where an independent non-executive Director is to be nominated) independency and other information of the proposing candidate in accordance with the requirements of the applicable laws, rules and regulations including those of the Listing Rules.

A shareholder can serve a written notice to the Company for the attention of the company secretary of the Company of his/her intention to propose a certain person for election as a Director. This written notice, together with a notice in writing by that person of his willingness to be elected, shall be lodged at the head office and principal place of business in Hong Kong of the Company or at the office the Company's branch share registrar and transfer office in Hong Kong at least seven (7) clear days before the date of the general meeting. The particulars of the candidate so proposed will be sent to the shareholders of the Company by a supplemental circular.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

Selection criteria

The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

Reputation for integrity: The candidate should have a strong reputation for integrity and standing, both personally and where he is a professional, professionally.

Accomplishment and experience: The candidate should have significant experience relevant to the business of the Group as well as a solid record of accomplishment in his chosen fields or those of the Group to provide his insights and practical wisdom to the Board based on their experience and expertise.

Time and availability: The candidate must have sufficient time available to effectively carry his duties as Director. His service on other boards of listed companies should be within reasonable limit as the Nomination Committee considers appropriate.

Independence: The candidate should be independent in character and judgment and be able to represent and act in the best interest of all shareholders of the Company as a whole. In addition, any candidate to be nominated as independent non-executive Director must as a minimum satisfy the independence requirements required of him under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") from time to time.

Diversity: The candidate should contribute to the Company's Board Diversity Policy adopted from time to time, with diversity reflecting, without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

Board succession planning: The candidate should, where appropriate, meet the Board succession planning adopted by the Board from time to time based on the current and anticipated needs of the Board.

Others: The candidate should be assessed based on their overall ability to exercise good judgment and to provide valuable insights and diverse perspective to the Board as well as any potential merit and contribution he may bring to the Board.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee may also consider such other factors as it may see fit which are in the best interest of the Company and its shareholders as a whole.

The Nomination Committee has the discretion to nominate any person as it considers appropriate. However, the ultimate responsibility for the selection and appointment of Directors rests with the entire Board.

All retiring Directors are eligible for nomination by the Board to stand for re-election at a general meeting.

Proposed candidates will be asked to submit the necessary personal information and to provide additional information and documents as the Nomination Committee considers appropriate.

The Nomination Committee will review and monitor the Nomination Policy from time to time to ensure that it remains relevant to the Company's needs and reflects both current regulatory requirement and good corporate governance.

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the CG Code. As at 31 December 2018, our remuneration committee comprised Mr. Ke Wentuo, Prof. Zhang Daopei and. Prof. Chen Lihong. Prof. Chen Lihong is the chairman of the remuneration committee.

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

Emolument Policies

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

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

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

	Attendance at meetings
Pro. Chen Lihong *(Chairman)*	2/2
Prof. Zhang Daopei	2/2
Mr. Ke Wentuo	2/2

Meeting with Independent Non-executive Directors

During the Review Period, the Chairman of the Company held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 22 March 2018 to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views at the Board meetings without restrictions.

Corporate Governance Functions

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

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

Communication with Shareholders

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

1. The annual general meeting provides a forum for Shareholders to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address Shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to Shareholders to facilitate enforcement of Shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep Shareholders informed of the Group's performances and operations; and

4. Updated key information of the Group is available on the Company's website to enable Shareholders and investors to have timely accesses to information about the Group.

Shareholders' Rights

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

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

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary at the Company's office in Hong Kong at 7th Floor, Hip Shing Hong Centre, 55 Des Voeux Road Central, Central, Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Shareholders' Enquiries

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

Constitutional Documents

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

REPORT OF THE DIRECTORS

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (hereinafter collectively referred to as our "Group") for the year ended 31 December 2018.

Corporate Reorganisation

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

Principal Activities

The principal activity of our Company is investment holding. Particulars of the subsidiaries of our Company are set out in note 38 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 60 of this report.

The Directors do not recommend declaration and payment of any final dividend for the year ended 31 December 2018 (For the year ended 31 December 2017: Nil).

No interim dividend was declared for the six months ended 30 June 2018 (For the six months ended 30 June 2017: Nil).

Reserves

Movements in reserves of the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 63 of this report.

As at 31 December 2018, the reserves of our Group available for distribution to Shareholders amounted to RMB3,514.3 million (As at 31 December 2017: RMB2,896.2 million).

Property, Plant and Equipment

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

Share Capital

Details of the share capital of the Company are set out in note 31 to the consolidated financial statements.

Directors

The Directors of the Company during the year and up to the date of this report are:

Executive directors

Mr. Ke Wentuo (柯文托) *(Chairman)*
Mr. Ke Jixiong (柯吉熊) *(Chief Executive Officer)*
Mr. Cao Xu (曹旭)
Mr. Zhang Guoduan (張國端)
Ms. Lian Bi Yu (連碧玉) *(appointed on 10 April 2018)*

Independent non-executive directors

Prof. Zhang Daopei (張道沛)
Prof. Chen Lihong (陳禮洪)
Mr. Chow Kwok Wai (周國偉)

Biographical details of the Directors during the year are set out in the section headed "Directors and senior management" on page 19 to 22 of this report.

Financial Summary

A financial summary of the Group for the last five years are set out on page 130 of this report.

Borrowings

Details of bank and other borrowings, convertible bonds and unsecured notes of the Group as at 31 December 2018 are set out in notes 26, 27 and 28 to the consolidated financial statements, respectively.

Share Option Scheme

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

(1) The purpose of the Scheme

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

(2) Who may join

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

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

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

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

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

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

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

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

(3) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issues as at 27 May 2010, being 100,000,000 shares, which represented approximately 8.04% of the total issue share capital of the Company at the date of this report.

(4) Maximum entitlement of each participant

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

(5) Offer period

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

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

(6) Minimum holding period, vesting and performance target

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

(7) Amount payable for Options

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

(8) Subscription Price

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

(a) the nominal value of a Share;

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

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

(9) Life of Share Option Scheme

Subject to the terms of this Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional (i.e. 27 May 2010), after which no further options will be granted or offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme. As of date of this report, the remaining life of the Scheme was about 1 year and 3 months.

As at 31 December 2018, no Options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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

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

As at 31 December 2018, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Ke Wentuo	L[1]	Interest in controlled corporation and interest of spouse[2]	694,237,500	55.85%
	S[1]	Interest in controlled corporation[3]	165,000,000	13.27%
Mr. Ke Jixiong	L[1]	Interest in controlled corporation[4]	41,930,000	3.37%

Notes

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

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

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

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

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

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

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2018 in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	L[1]	Beneficial owner[2]	665,560,500	53.54%
	S[1]	Beneficial owner[2]	165,000,000	13.27%
Ms. Cai Lishuang	L[1]	Interest in controlled corporation and interest of spouse[3]	694,237,500	55.85%
	S[1]	Interest in controlled corporation and interest of spouse[3]	165,000,000	13.27%
Central China International Financial Holdings Company Limited	L[1]	Security interest in shares[4]	118,000,000	9.49%
Central China Securities Company Limited	L[1]	Security interest in shares and Interest in controlled corporation[4]	118,000,000	9.49%

Notes

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

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

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

4: Central China International Financial Holdings Company Limited is wholly owned by Central China Securities Company Limited, which, according to the disclosure of interest filed by Central China International Financial Holdings Company Limited and Central China Securities Company Limited, each of Central China International Financial Holdings Company Limited and Central China Securities Company Limited is deemed to be interested in 118,000,000 shares of the Company under the SFO by virtue of its security interest in these 118,000,000 shares.

Except as disclosed above, as at 31 December 2018, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

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

Related Party Transactions

A summary of the related party transactions made during the year ended 31 December 2018 is disclosed in note 35 to the consolidated financial statements and these related party transactions did not constitute connected and/or continuing connected transactions as defined under the Listing Rules.

Transactions, Arrangement or Contracts of Significance

There was no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Directors' Interests in Competing Business

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

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 3.2% (2017: 4.1%) and 14.4% (2017: 19.4%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 41.8% (2017: 45.5%) and 80.6% (2017: 70.1%) of the Group's total purchases respectively.

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

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

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

Deed of Non-competition

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

Pre-emptive Rights

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

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

During the year ended 31 December 2018, the Company repurchased a total of 700,000 Shares of HKD0.10 per share from the open market at an aggregate consideration of approximately RMB1,523,000 (including transaction costs). Details of the repurchased Shares during the period are set out as follows:

Month of repurchases	Number of Shares repurchased	Price paid per share Highest *HK$*	Lowest *HK$*	Aggregate consideration paid (including expenses) *RMB'000*
September 2018	700,000	2.52	2.41	1,523

The above Shares were cancelled on 19 December 2018.

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

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

Equity-linked Agreements

Save as disclosed in the sections headed "Share Option Scheme" and the convertible bonds issued by the Company as disclosed in the annual report, as at the end of and during the year ended 31 December 2018, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

Permitted Indemnity Provision

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

Business Review

The business review of the Group for the year ended 31 December 2018 as set out in the section headed "Business Review and Outlook" in this annual report is expressly included in this report and forms part of this directors' report.

Compliance with Laws and Regulations

During the year ended 31 December 2018 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

Business Risks and Risk Management

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

Business Risk

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

Financial Risk

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

Compliance Risk

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

Operational Risk

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

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

Employees

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

Environmental Protection

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

Sufficiency of Public Float

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

Auditor

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

RSM Hong Kong has been first appointed as auditor of the Company in May 2017 and, subsequently, re-appointed by the Shareholders at the annual general meeting on 23 May 2018 and shall hold office until the conclusion of the forthcoming annual general meeting. On 22 November 2018, our auditor changed its Chinese practice name.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint RSM Hong Kong as our auditor.

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 28 March 2019

RSM

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

Opinion

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 129 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

RSM

Key Audit Matters

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

1. Goodwill and other intangible assets impairment assessment

Refer to note 4 to the consolidated financial statements on the relevant accounting policies, note 5 to the consolidated financial statements on key sources of estimation uncertainty, and notes 19 and 20 to the consolidated financial statements on goodwill and intangible assets, respectively.

Key Audit Matter	How our audit addressed the Key Audit Matter
As at 31 December 2018, the Group has goodwill of approximately RMB613,498,000 and intangible assets of approximately RMB203,520,000 arising from the acquisition of subsidiaries during the year ended 31 December 2017. For the purpose of impairment testing, the goodwill and other intangible assets are allocated to cash-generating units ("CGUs"). Those CGUs which include goodwill are tested for impairment at least annually. The recoverable amount of the CGUs was based on a calculation of value in use which requires management to make assumption about the future including forecast sales, profit margins and growth rates and to determine an appropriate market discount rate. These estimates require significant management judgement.	Our audit procedures in relation to this matter included: • Assessing the integrity of the value in use models; • Challenging the reasonableness of management's key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; • Considering the potential impact of reasonably possible downside changes in the key assumptions; and • Assessing the adequacy of the impairment disclosures in the consolidated financial statements.

RSM

Other Information

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

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

RSM

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

- 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, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

RSM Hong Kong
Certified Public Accountants
28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	7	**4,059,840**	2,638,825
Cost of sales		**(2,419,076)**	(1,747,505)
Gross profit		**1,640,764**	891,320
Other income and other gains and losses	9	**(34,663)**	463,410
Share of profit of an associate		**—**	67,000
Selling and distribution expenses		**(178,341)**	(64,023)
Administrative expenses		**(128,599)**	(125,693)
Finance costs	10	**(220,979)**	(94,853)
Other expenses		**(86,455)**	(56,190)
Profit before tax	11	**991,727**	1,080,971
Income tax expense	12	**(266,049)**	(90,848)
Profit and total comprehensive income for the year		**725,678**	990,123
Attributable to:			
Owners of the Company		**661,041**	961,981
Non-controlling interests		**64,637**	28,142
		725,678	990,123
		RMB	RMB
Earnings per share	16		
Basic		**0.532**	0.799
Diluted		**N/A**	0.775

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	3,278,844	2,807,588
Prepaid lease payments	18	516,434	529,603
Goodwill	19	613,498	613,498
Intangible assets	20	203,520	230,292
Deposits paid for acquisition of property, plant and equipment		436,619	206,604
Deposits paid for acquisition of prepaid lease payments		—	49,966
Deposit paid for acquisition of non-controlling interests		41,520	33,150
Other prepayments	23	69,429	106,439
		5,159,864	4,577,140
CURRENT ASSETS			
Inventories	21	80,273	117,274
Trade and other receivables	22	2,090,024	1,754,689
Prepaid lease payments	18	12,865	12,865
Derivative financial assets		3,273	—
Bank balances and cash	24	519,639	846,343
		2,706,074	2,731,171
CURRENT LIABILITIES			
Trade and other payables	25	448,768	465,525
Income tax payables		98,003	63,285
Bank and other borrowings	26	1,320,761	660,140
Convertible bonds	27	339,790	262,127
Derivative component of convertible bonds	27	637	12,880
Unsecured notes	28	492,667	—
Derivative financial liabilities		—	4,307
		2,700,626	1,468,264
NET CURRENT ASSETS		5,448	1,262,907
TOTAL ASSETS LESS CURRENT LIABILITIES		5,165,312	5,840,047

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Bank and other borrowings	26	**16,000**	789,790
Unsecured notes	28	—	433,580
Deferred consideration	29	**326,733**	375,907
Deferred taxation	30	**70,551**	67,597
		413,284	1,666,874
NET ASSETS		**4,752,028**	4,173,173
CAPITAL AND RESERVES			
Share capital	31	**107,330**	108,397
Reserves	32	**4,329,179**	3,683,795
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**4,436,509**	3,792,192
Non-controlling interests		**315,519**	380,981
TOTAL EQUITY		**4,752,028**	4,173,173

The consolidated financial statements on pages 60 to 129 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Ke Wentuo

Ke Jixiong

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	102,501	44,016	563,875	2,011,011	2,721,403	—	2,721,403
Profit and total comprehensive income for the year	—	—	—	961,981	961,981	28,142	990,123
Share repurchased (Note 31(a))	—	—	(42,933)	—	(42,933)	—	(42,933)
Share cancelled (Note 31(a))	(662)	(12,313)	12,975	—	—	—	—
Issue of new shares on acquisition of subsidiaries (Note 31(b))	6,558	145,183	—	—	151,741	—	151,741
Acquisition of subsidiaries	—	—	—	—	—	352,839	352,839
Appropriation	—	—	76,769	(76,769)	—	—	—
Changes in equity for the year	5,896	132,870	46,811	885,212	1,070,789	380,981	1,451,770
At 31 December 2017 and 1 January 2018	**108,397**	**176,886**	**610,686**	**2,896,223**	**3,792,192**	**380,981**	**4,173,173**
Profit and total comprehensive income for the year	—	—	—	**661,041**	**661,041**	**64,637**	**725,678**
Acquisition of non-controlling interests	—	—	—	**(15,201)**	**(15,201)**	**(50,099)**	**(65,300)**
Dividend to non-controlling interests	—	—	—	—	—	**(80,000)**	**(80,000)**
Share repurchased (Note 31(a))	—	—	**(1,523)**	—	**(1,523)**	—	**(1,523)**
Share cancelled (Note 31(a))	**(1,067)**	**(36,756)**	**37,823**	—	—	—	—
Appropriation	—	—	**27,695**	**(27,695)**	—	—	—
Changes in equity for the year	**(1,067)**	**(36,756)**	**63,995**	**618,145**	**644,317**	**(65,462)**	**578,855**
At 31 December 2018	**107,330**	**140,130**	**674,681**	**3,514,368**	**4,436,509**	**315,519**	**4,752,028**

Note: Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**991,727**	1,080,971
Adjustments for:		
Finance costs	**220,979**	94,853
Depreciation of property, plant and equipment	**168,417**	130,216
Amortisation of prepaid lease payments	**13,169**	12,952
Amortisation of intangible assets	**26,772**	8,924
Loss on disposals/write off of property, plant and equipment	**3,310**	61
Interest income	**(2,402)**	(1,761)
Fair value (gain) loss on foreign currency forward contracts	**(7,580)**	12,276
Fair value gain on derivative component of convertible bonds	**(18,758)**	(25,811)
Loss on extinguishment of liability of convertible bonds	**4,363**	—
Share of profit of an associate	—	(67,000)
Gain on deemed disposal of an associate	—	(343,740)
Gain on extinguishment of deferred consideration	**(84,673)**	—
Net foreign exchange loss (gain)	**134,955**	(100,070)
Operating profit before working capital changes	**1,450,279**	801,871
Increase in trade and other receivables	**(298,325)**	(282,146)
Decrease (increase) in inventories	**37,001**	(16,666)
(Decrease) increase in trade and other payables	**(13,817)**	122,537
Cash generated from operations	**1,175,138**	625,596
Income tax paid	**(228,377)**	(95,203)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**946,761**	530,393
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(899,114)**	(272,978)
Proceeds from disposal of property, plant and equipment	**46,361**	4
Refund (payments) for acquisition of prepaid lease payments	**49,966**	(10,111)
Payments for acquisition of subsidiaries	—	(183,636)
Payments for acquisition of non-controlling interests	**(70,370)**	—
Interest received	**2,402**	1,761
NET CASH USED IN INVESTING ACTIVITIES	**(870,755)**	(464,960)

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other borrowings raised	**343,600**	166,851
Repayments of bank and other borrowings	**(649,745)**	(469,924)
Proceeds from issue of convertible bonds	**139,040**	293,387
Repayments of convertible bonds	**(10,726)**	—
Proceeds from issue of unsecured notes	**—**	440,895
Interest paid	**(201,447)**	(68,993)
Payments for share repurchased	**(1,523)**	(42,933)
Dividend paid to non-controlling interests	**(20,000)**	—
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(400,801)**	319,283
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(324,795)**	384,716
Effect of foreign exchange rate changes	**(1,909)**	(3,552)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**846,343**	465,179
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**519,639**	846,343

1. GENERAL

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

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

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 38.

2. BASIS OF PREPARATION

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

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

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of new and revised IFRSs

International Accounting Standard Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following new or revised IFRS are relevant to the Group:

(i) IFRS 9 Financial Instruments; and

(ii) IFRS 15 Revenue from Contracts with Customers.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

(b) Measurement

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

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

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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

Application of new and revised IFRSs (continued)

(b) Measurement (continued)

- FVTPL: Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains (losses) in the period in which it arises.

Changes in the fair value of financial assets at FVTPL are recognised in other gains (losses) in the statement of profit or loss as applicable.

(c) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Set out below is the impact of the adoption of IFRS 9 on the Group.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Trade and other receivables (Note)	Loans and receivables	Amortised cost	1,626,980	1,626,980

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

Note: Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognsied. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The adoption of IFRS 15 resulted in the following changes to the Group's accounting policies.

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

IFRS 15 Revenue from Contracts with Customers

Revenue from the sale paper products is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and there is no unfulfilled obligation that could affect the customer's acceptance of goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

IFRS 16 Leases

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

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

IFRS 16 Leases (continued)

As disclosed in note 36, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately RMB1,623,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation of IAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Consolidation

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

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

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

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

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

(iii) Translation on consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

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

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

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

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

Leases

The Group as lessee

Operating leases

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks and customers relationship are stated at cost less accumulated amortisation and impairment losses.

The Group has the following intangible assets that are amortised on a straight-line basis over their estimated useful lives as follows:

Trademarks	16 years
Customers relationship	8 years

Inventories

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

Recognition and derecognition of financial instruments

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

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments

Debt investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVTOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flow. Cash and cash equivalents are assessed for ECL.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

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

Borrowings

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

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

Convertible bonds

Convertible bonds which entitle the holder to convert the bonds into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at FVTPL until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption. Convertible bonds which entitle the holder to convert the bonds into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible bonds and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible bonds reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

Trade and other payables

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

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

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

Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of paper products is recognised when control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVTOCI (recycling) that are not credit impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Policy prior to 1 January 2018

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

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

Government grants

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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

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

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

Impairment of financial assets

The Group recognises a loss allowance for ECL on trade receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has resasonable and supportable information that demonstrates otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Significant increase in credit risk (continued)

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Policy prior to 1 January 2018

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year. As at 31 December 2018, the carrying amount of property, plant and equipment is approximately RMB3,278,844,000 (2017: RMB2,807,588,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. As at 31 December 2018, the carrying amount of goodwill is approximately RMB613,498,000 (2017: RMB613,498,000).

Impairment of trade receivables

Prior to the adoption of IFRS 9 on 1 January 2018, management of the Group assesses at the end of each reporting period whether there is any objective evidence that trade receivables are impaired. The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of trade receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2017, the carrying amount of trade receivables is approximately RMB1,620,046,000.

Since the adoption of IFRS 9 on 1 January 2018, management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of trade receivables is approximately RMB1,898,954,000.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018	2017
	RMB'000	RMB'000
Financial assets:		
Derivative financial assets	**3,273**	—
Loans and receivables (including cash and cash equivalents)	—	2,473,323
Financial assets measured at amortised cost	**2,483,588**	—
Financial liabilities:		
Derivative financial liabilities	—	4,307
Derivative component of convertible bonds	**637**	12,880
Financial liabilities measured at amortised cost	**2,944,719**	2,987,069

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

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

Currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities of bank balances and cash, bank and other borrowings, convertible bonds, unsecured notes and consideration payable at the end of the reporting period are as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar ("HK$")	**1,306**	76,746	**355,614**	151,204
United States Dollar ("US$")	**3,941**	60,477	**2,038,974**	2,128,220

Sensitivity analysis

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

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% (2017: 10%) is the sensitivity rate used for management's assessment of the reasonably possible change in foreign exchange rates as the economy become more volatile. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items. A positive number below indicates an increase in post-tax profit where RMB strengthens 10% (2017: 10%) against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 10% (2017: 10%) weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

	HK$		US$	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**35,431**	7,446	**203,503**	206,774

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30-180 days from the date of billing. Debtors with balances that are past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0%	1,898,954	—

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

Trade receivables (continued)

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, none of the trade receivables was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017
	RMB'000
Neither past due nor impaired	1,620,046

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, convertible bonds and unsecured notes.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2018, the Group had available unutilised banking facilities of approximately RMB1,161,760,000 (2017: RMB1,443,300,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018						
Trade and other payables		448,768	—	—	448,768	448,768
Bank and other borrowings						
– fixed rate	18.09	371,631	—	—	371,631	368,187
– variable rate	4.05	983,739	16,670	—	1,000,409	968,574
Convertible bonds	12.23	360,075	—	—	360,075	339,790
Unsecured notes	12.40	547,528	—	—	547,528	492,667
Deferred consideration	8.80	—	—	419,178	419,178	326,733
		2,711,741	16,670	419,178	3,147,589	2,944,719
At 31 December 2017						
Trade and other payables		465,525	—	—	465,525	465,525
Bank and other borrowings						
– fixed rate	4.35	199,882	—	—	199,882	197,000
– variable rate	4.13	195,753	378,391	757,639	1,331,783	1,252,930
Convertible bonds	30.53	317,071	—	—	317,071	262,127
Unsecured notes	12.40	26,879	515,879	—	542,758	433,580
Deferred consideration	4.90	—	394,948	—	394,948	375,907
Derivative financial liabilities		2,154	2,153	—	4,307	4,307
		1,207,264	1,291,371	757,639	3,256,274	2,991,376

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Interest rate risk

The Group's fair value interest rate risk relates primarily to bank and other borrowings, convertible bonds, unsecured notes and deferred consideration. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see notes 26 for details of these borrowings).

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk which relates primarily to variable-rate bank balances and bank borrowings (see notes 24 and 26 for details of these balances). The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

For the bank balances, if the interest rates for benchmark saving rate had been increased/decreased by 20 (2017: 20) basis points and other variables were held constant, as the economy become more volatile and the Group's post-tax profit for the year ended would increase/decrease by approximately RMB834,000 (2017: RMB1,300,000) for the year ended 31 December 2018.

For the bank borrowings, if interest rates had been increased/decreased by 75 (2017: 75) basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB7,191,000 (2017: RMB9,314,000) for the year ended 31 December 2018.

6. FINANCIAL INSTRUMENTS (continued)

Fair value

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

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

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

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

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

(a) Disclosures of level in fair value hierarchy:

	Fair value measurements as at 31 December 2018			
Description	**Leve 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Recurring fair value measurements:				
Financial assets				
Derivative financial assets	—	**3,273**	—	**3,273**
Financial liabilities				
Derivative component of convertible bonds	—	—	**637**	**637**

	Fair value measurements as at 31 December 2017			
Description	Leve 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Recurring fair value measurements:				
Financial liabilities				
Derivative component of convertible bonds	—	—	12,880	12,880
Derivative financial liabilities	—	4,307	—	4,307
Total	—	4,307	12,880	17,187

6. FINANCIAL INSTRUMENTS (continued)

Fair value (continued)

Fair value estimation (continued)

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's senior management is responsible for the fair value measurements of financial assets and financial liabilities required for financial reporting purposes, including level 2 and level 3 fair value measurements. The senior management reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the senior management and the Board of Directors at least twice a year.

For level 2 fair value measurements, derivative financial assets/liabilities of the Group under recurring fair value measurement were foreign currency forward contracts, are measured at fair value on Level 2 fair value measurement. The valuation technique used in this fair value measurement is discounted cash flows and the inputs are forward exchange rate, contract forward rates and discount rates.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly expected volatility.

Level 3 fair value measurements

Description	**Valuation technique**	**Unobservable inputs**	**Range**	**Effect on fair value for increase of inputs**	**Fair value as at 31 December 2018** RMB'000	**Fair value as at 31 December 2017** RMB'000
Derivative component of convertible bonds	Binomial option pricing model	Expected volatility	34% - 47% (2017: 40% - 44%)	Increase	**637**	12,880

During the year, there were no changes in the valuation techniques used.

7. REVENUE

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15 by major products:		
Wrapping tissue paper	**2,171,569**	1,684,849
Wall paper products	**1,380,957**	535,290
Copy paper	**290,108**	217,371
Other products	**217,206**	201,315
	4,059,840	2,638,825

The Group derives revenue from the transfer of goods at a point in time and in the PRC.

The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18 and IAS 11.

8. SEGMENT INFORMATION

(a) Products within each operating segment

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

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

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

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wrapping tissue paper	**2,171,569**	1,684,849	**786,356**	549,221
Wall paper products	**1,380,957**	535,290	**739,336**	250,752
Copy paper	**290,108**	217,371	**83,648**	63,878
Other products	**217,206**	201,315	**31,424**	27,469
	4,059,840	2,638,825	**1,640,764**	891,320
Other income and other gains and losses			**(34,663)**	463,410
Share of profit of an associate			**—**	67,000
Selling and distribution expenses			**(178,341)**	(64,023)
Administrative expenses			**(128,599)**	(125,693)
Finance costs			**(220,979)**	(94,853)
Other expenses			**(86,455)**	(56,190)
Profit before tax			**991,727**	1,080,971

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

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

8. SEGMENT INFORMATION (continued)

(c) Segment assets

	2018 RMB'000	2017 RMB'000
Wrapping tissue paper	**1,314,753**	729,019
Wall paper products	**2,964,161**	2,969,716
Copy paper	**153,012**	115,451
Other products	**191,097**	255,446
Total segment assets	**4,623,023**	4,069,632
Unallocated		
– Property, plant and equipment	**925,975**	1,012,406
– Prepaid lease payments	**327,473**	325,439
– Deposits paid for acquisition of property, plant and equipment	**294,553**	183,594
– Deposits paid for acquisition of prepaid lease payments	**—**	49,966
– Deposit paid for acquisition of non-controlling interests	**41,520**	33,150
– Inventories	**50,273**	83,138
– Trade and other receivables	**1,249,588**	1,025,705
– Derivative financial assets	**3,273**	—
– Bank balances and cash	**350,260**	525,281
Consolidated assets	**7,865,938**	7,308,311

Segment assets include certain property, plant and equipment, prepaid lease payments, deposits paid for acquisition of property, plant and equipment, inventories, trade and other receivables and bank balances and cash used specifically for the production of different products.

8. SEGMENT INFORMATION (continued)

(d) Segment liabilities

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

(e) Other segment information

	Wrapping tissue paper RMB'000	Wall paper products RMB'000	Copy paper RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Year ended 31 December 2018						
Additions to property, plant and equipment	**378,648**	**35,242**	**17,069**	**5,198**	**253,187**	**689,344**
Depreciation and amortisation	**64,693**	**41,669**	**8,938**	**10,439**	**82,619**	**208,358**
Loss on disposals/write off of property, plant and equipment	—	—	—	—	**3,310**	**3,310**
Year ended 31 December 2017						
Additions to property, plant and equipment	24,274	53,892	24,395	4,874	60,208	167,643
Acquisition of subsidiaries						
– Property, plant and equipment	—	473,978	—	—	—	473,978
– Prepaid lease payments	—	221,687	—	—	—	221,687
– Intangible assets	—	239,216	—	—	—	239,216
Goodwill arising from acquisition of subsidiaries	—	613,498	—	—	—	613,498
Depreciation and amortisation	47,632	32,777	7,389	10,652	53,642	152,092
Loss on disposals/write off of property, plant and equipment	—	—	—	—	61	61

8. SEGMENT INFORMATION (continued)

(f) Geographical information

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

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

(g) Information about major customers

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

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Bank interest income	2,402	1,761
Loss on disposals/write off of property, plant and equipment	(3,310)	(61)
Net foreign exchange (loss) gain	(128,554)	91,458
Gain on deemed disposal of an associate	—	343,740
Gain on extinguishment of deferred consideration	84,673	—
Government grants (Note)	129	205
Fair value gain on derivative component of convertible bonds	18,758	25,811
Loss on extinguishment of convertible bonds	(9,229)	—
Others	468	496
	(34,663)	463,410

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC for developing innovative production technology and maintaining a good reputation in the business community in 2017 and 2018. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest expenses on:		
– Bank and other borrowings	**75,633**	66,468
– Convertible bonds	**68,125**	12,952
– Unsecured notes	**59,782**	11,032
Transaction costs of derivative component of convertible bonds	**—**	1,354
Imputed interest expenses on deferred consideration	**16,320**	5,440
Other finance costs	**1,392**	—
Less: Amounts capitalised	**(273)**	(2,393)
	220,979	94,853

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.5% per annum (2017: 5.3%).

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2018 RMB'000	2017 RMB'000
Employee benefits expenses (including directors):		
Salaries, wages and other benefits	**91,637**	75,229
Retirement benefit scheme contributions	**10,053**	5,924
	101,690	81,153
Depreciation of property, plant and equipment (Note 17)	**168,417**	130,216
Amortisation of prepaid lease payments (Note 18)	**13,169**	12,952
Amortisation of intangible assets (Note 20)	**26,772**	8,924
Total depreciation and amortisation expenses	**208,358**	152,092
Auditors' remuneration	**3,089**	3,324
Research and development cost recognised as expenses (included in other expenses)	**86,455**	56,190
Cost of inventories recognised as expenses	**2,419,076**	1,747,505

12. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax		
Charge for the year	**263,095**	86,036
Deferred tax (Note 30)		
Charge for the year	**2,954**	4,812
	266,049	90,848

The Company and those subsidiaries incorporated in the Cayman Islands or British Virgin Islands not subject to income tax.

Those subsidiaries incorporated in Hong Kong have had no assessable profit subject to Hong Kong Profits Tax for both years.

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

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

Certain PRC subsidiaries obtained the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% for three years period, subject to annual review by the relevant authority. In current year, the preferential tax rate of 15% has applied to Xiyuan and Senry.

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**991,727**	1,080,971
Tax at the PRC statutory EIT rate of 25%	**247,932**	270,243
Effect of tax exemptions and tax concession	**(91,502)**	(98,260)
Deferred tax on PRC dividend withholding tax	**7,000**	7,000
Tax effect of income that is not taxable	**(193)**	(85,935)
Tax effect of expenses that are not deductible	**104,026**	14,108
Tax effect of share of profit of an associate	**—**	(16,750)
Tax effect of utilisation of tax losses not previously recognised	**(1,214)**	(971)
Others	**—**	1,413
Income tax expense	**266,049**	90,848

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

(a) Directors' emoluments

The emoluments paid or payable to each of the 8 (2017: 7) directors and the Chief Executive Officer were as follows:

For the year ended 31 December 2018

	Mr. Ke	Mr. Ke Jixiong	Mr. Cao Xu	Mr. Zhang Guoduan	Ms. Lian Bi Yu (Appointed on 10 April 2018)	Prof. Zhang Daopei	Prof. Chen Lihong	Mr. Chow Kwok Wai	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees									
Other emoluments	—	—	—	—	115	120	—	161	396
Salaries and other benefits	1,481	1,167	174	175	—	—	—	—	2,997
Contribution to retirement benefit schemes	10	18	14	17	—	—			59
Performance related incentive payments									
Share based payment	—	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—	—
	1,491	1,185	188	192	115	120	—	161	3,452
Pension paid to directors	—	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors' and chief executive	—	—	—	—	—	—	—	—	—
	1,491	1,185	188	192	115	120	—	161	3,452

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

(a) Directors' emoluments (continued)

For the year ended 31 December 2017

	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihong RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	121	—	156	277
Other emoluments								
Salaries and other benefits	1,321	1,028	169	170	—	—	—	2,688
Contribution to retirement benefit schemes	11	17	11	16	—	—	—	55
Performance related incentive payments								
Share based payment	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—
	1,332	1,045	180	186	121	—	156	3,020
Pension paid to directors	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors' and chief executive	—	—	—	—	—	—	—	—
	1,332	1,045	180	186	121	—	156	3,020

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

For the years ended 31 December 2018 and 2017, neither the Chief Executive Officer nor any of the directors waived or agreed to waive any emoluments except Prof. Chen Lihong agreed to waive his emoluments for the year ended 31 December 2018 and 2017.

Estimated money values of other benefits include rent paid, share options, insurance premium, etc.

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

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

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

Save as disclosed in note 29 and 35, no transaction, arrangement and contract of significant in relation to the Group's business to which the Company or subsidiaries was a party, and in which a director of the Company and other director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

14. INDIVIDUALS WITH HIGEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: three) were directors and the Chief Executive Officer is one of them, whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining three (2017: two) individuals were as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,557**	1,459
Retirement benefit scheme contributions	**41**	31
	1,598	1,490

Their emoluments were within the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000 (equivalent to RMBNil to RMB843,000)	**2**	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB843,001 to RMB1,264,500)	**1**	1

No emoluments have been paid to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2018 and 2017.

15. DIVIDENDS

On 28 March 2019, The Board does not recommend declaration and payment of any final dividend in respect of the year ended 31 December 2018 (2017: Proposed final dividend of Nil).

16. EARNINGS PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	661,041	961,981
Finance cost saving on conversion of convertible bonds outstanding	—	12,952
Fair value gain on derivative component of convertible bonds reversed	—	(25,811)
Exchange gain on liability and derivative components of convertible bonds reversed	—	(5,521)
Earnings for the purpose of calculating diluted earnings per share	661,041	943,601

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,243,508,999	1,203,994,648
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	—	13,168,899
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,243,508,999	1,217,163,547

For the year ended 31 December 2018, as the exercise of the Group's outstanding convertible bonds would be anti-dilutive, no diluted earnings per share was presented.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2017	1,165,365	1,494,150	13,821	8,118	168,905	2,850,359
Additions	604	53,433	53	1,762	111,791	167,643
Acquisition of subsidiaries (Note 34 (a))	266,901	205,336	840	573	328	473,978
Transfer	90,008	157,505	—	53	(247,566)	—
Disposals/write off	—	(332)	(505)	(170)	—	(1,007)
At 31 December 2017 and 1 January 2018	**1,522,878**	**1,910,092**	**14,209**	**10,336**	**33,458**	**3,490,973**
Additions	**295**	**318**	**499**	**1,849**	**686,383**	**689,344**
Transfer	**57,939**	**654,883**	**70**	—	**(712,892)**	—
Disposals/write off	**(48,463)**	**(10,838)**	**(84)**	**(3,380)**	—	**(62,765)**
At 31 December 2018	**1,532,649**	**2,554,455**	**14,694**	**8,805**	**6,949**	**4,117,552**
Accumulated depreciation						
At 1 January 2017	(181,984)	(355,257)	(11,540)	(5,330)	—	(554,111)
Provided for the year	(40,187)	(88,279)	(1,113)	(637)	—	(130,216)
Disposals/write off	—	299	490	153	—	942
At 31 December 2017 and 1 January 2018	**(222,171)**	**(443,237)**	**(12,163)**	**(5,814)**	—	**(683,385)**
Provided for the year	**(48,429)**	**(118,208)**	**(862)**	**(918)**	—	**(168,417)**
Disposals/write off	**772**	**9,376**	**75**	**2,871**	—	**13,094**
At 31 December 2018	**(269,828)**	**(552,069)**	**(12,950)**	**(3,861)**	—	**(838,708)**
Carrying amount						
At 31 December 2018	**1,262,821**	**2,002,386**	**1,744**	**4,944**	**6,949**	**3,278,844**
At 31 December 2017	1,300,707	1,466,855	2,046	4,522	33,458	2,807,588

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

The Group has pledged several buildings and plant and machineries with a carrying amount of approximately RMB327,590,000 (2017: RMB346,358,000) to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	**529,299**	542,468
Analysed for reporting purpose as:		
– Current assets	**12,865**	12,865
– Non-current assets	**516,434**	529,603
	529,299	542,468

The Group's prepaid lease payments represent the payments for land use rights situated in the PRC. The remaining unexpired lease term of the leasehold lands is in range of 32 to 45 years (2017: 33 to 46 years) for the year ended 31 December 2018.

The Group has pledged certain of its leasehold lands in the PRC with a carrying amount of approximately RMB111,479,000 (2017: RMB113,790,000) to secure banking facilities granted to the Group.

19. GOODWILL

	RMB'000
Cost	
At 1 January 2017	—
Arising on acquisition of subsidiaries (Note 34 (a))	613,498
At 31 December 2017, 1 January 2018 and 31 December 2018	**613,498**
Accumulated impairment losses	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	—
Carrying amount	
At 31 December 2018	**613,498**
At 31 December 2017	613,498

19. GOODWILL (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill (net of accumulated impairment losses) had been allocated as follows:

	2018 RMB'000	2017 RMB'000
Wall paper products:		
Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries ("Xin Wing Group")	613,498	613,498

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and turnover during the period. The Group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses of the CGUs operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3% (2017: 3%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Group's wall paper products activities is 13% (2017: 14%).

20. INTANGIBLE ASSETS

	Trademarks RMB'000	Customers relationship RMB'000	Total RMB'000
Cost			
At 1 January 2017	—	—	—
Acquisition of subsidiaries (Note 34 (a))	50,234	188,982	239,216
At 31 December 2017, 1 January 2018 and 31 December 2018	50,234	188,982	239,216
Accumulated amortisation			
At 1 January 2017	—	—	—
Amortisation for the year	(1,048)	(7,876)	(8,924)
At 31 December 2017 and 1 January 2018	(1,048)	(7,876)	(8,924)
Amortisation for the year	(3,144)	(23,628)	(26,772)
At 31 December 2018	(4,192)	(31,504)	(35,696)
Carrying amount			
At 31 December 2018	46,042	157,478	203,520
At 31 December 2017	49,186	181,106	230,292

Intangible assets of trademarks and customer relationship were recognised in the consolidated financial statements of the Group from the acquisition of subsidiaries in 2017. The initial amounts were based on a valuation report issued by an independent valuer representing the present value of the future residue cash flow attributable to the intangible assets.

21. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	62,117	95,643
Work in progress	831	14,235
Finished goods	17,325	7,396
	80,273	117,274

22. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	1,898,954	1,620,046
Other prepayments (Note 23)	122,198	112,952
Other receivables and deposits	64,995	6,934
Prepaid expenses	3,877	2,125
Other tax recoverable	—	12,632
	2,090,024	1,754,689

The Group allows a credit period range from 30 days to 180 days (2017: 120 days to 180 days) to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
0 to 60 days	907,783	771,624
61 to 120 days	779,423	662,872
121 to 180 days	211,748	185,550
	1,898,954	1,620,046

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

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

As at 31 December 2018 and 2017, no trade receivable balance was past due nor impaired. The Group does not hold any collateral over the trade balances.

As at 31 December 2018 and 2017, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

23. OTHER PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Other prepayments	**191,627**	219,391
Analysed for reporting purpose as:		
– Non-current assets	**69,429**	106,439
– Current assets (Note 22)	**122,198**	112,952
	191,627	219,391

Other prepayments mainly represented prepayments for advertising programs and marketing promotion expenses for wall paper retail branches and outlets of the customers. The amount of prepayments was paid to customers mainly based on the gross floors area for wall paper retail branches and outlets, the prepayments are amortised by its contract period.

The prepayments are charged to profit and loss on a straight-line basis over the contract terms of 1 to 3 years. As at 31 December 2018 and 2017, no amount of prepayments are impaired.

24. BANK BALANCES AND CASH

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

Bank balances of the Group as at 31 December 2018 carry market interest rates of range from 0.01% to 2.35% (2017: 0.01% to 1.95%) per annum.

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

25. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	254,327	309,911
Other payables for acquisition of plant and equipment	31,588	11,616
Other tax payables	42,194	51,126
Accrued staff costs and employee social security fund	12,610	11,828
Accrued electricity expenses	5,425	7,448
Other accrued expenses	42,624	73,596
Dividend payable to non-controlling interests	60,000	—
	448,768	465,525

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

	2018 RMB'000	2017 RMB'000
Within 30 days	135,860	175,935
31 to 90 days	118,467	133,976
	254,327	309,911

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

Trade payables principally comprise amounts outstanding for the purchase of goods. The average credit period for purchase of goods is 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

26. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings	**1,027,574**	1,449,930
Other borrowings	**309,187**	—
	1,336,761	1,449,930
Carrying amount repayable:		
Within one year	**1,320,761**	660,140
More than one year, but not exceeding two years	**16,000**	789,790
	1,336,761	1,449,930
Less: Amounts due within one year shown under current liabilities	**(1,320,761)**	(660,140)
Amounts shown under non-current liabilities	**16,000**	789,790
Analysed as:		
Fixed-rate borrowings	**368,187**	197,000
Variable-rate borrowings	**968,574**	1,252,930
	1,336,761	1,449,930

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

	2018	2017
Effective interest rate:		
Fixed-rate borrowings		
US$	**18%**	—
HK$	**22.75%**	—
RMB	**4.35%**	4.35%
Variable-rate borrowings		
US$	**LIBOR Plus 2.0% to 2.75%**	LIBOR Plus 2.0% to 2.75%
RMB	**115% of Benchmark Borrowing Rate to 145% of Benchmark Borrowing Rate**	115% of Benchmark Borrowing Rate to 145% of Benchmark Borrowing Rate

26. BANK AND OTHER BORROWINGS (continued)

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

	2018 RMB'000	2017 RMB'000
Amounts shown under current liabilities:		
Fixed-rate borrowings		
HK$	176,600	—
US$	132,587	—
RMB	69,000	197,000
Variable-rate borrowings		
US$	925,574	453,140
RMB	17,000	10,000
	1,320,761	660,140
Amounts shown under non-current liabilities:		
Variable-rate borrowings		
US$	—	741,790
RMB	16,000	48,000
	16,000	789,790
	1,336,761	1,449,930

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

	2018 RMB'000	2017 RMB'000
Borrowings are secured by assets of the Group (Note)	28,000	173,000
Borrowings are secured by assets of a director of the Company	132,587	—
Borrowings are cross-guaranteed among subsidiaries of the Company	999,574	1,276,930
Unsecured borrowings	176,600	—
	1,336,761	1,449,930

26. BANK AND OTHER BORROWINGS (continued)

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

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	327,590	346,358
Land use rights, classified as prepaid lease payments	111,479	113,790
	439,069	460,148

27. CONVERTIBLE BONDS

For the year ended 31 December 2017, the Company issued unlisted, guaranteed and unsecured convertible bonds with principal amounts of HK$200,000,000 ("October 2017 CB") and US$20,000,000 ("November 2017 CB"), to independent third parties on 20 October 2017 and 13 November 2017, respectively.

For the year ended 31 December 2018, the Company issued unlisted, guaranteed and unsecured convertible bond with a principal amount US$22,000,000 ("February 2018 CB"), to an independent third party on 1 February 2018.

These convertible bonds have coupon rate of 4.5% per annum on the principal amount outstanding and interest will be paid semi-annually in arrears until that maturity date. The table below summarised the details and features of these convertible bonds:

Convertible bonds	Issuance date	Maturity date	Conversion period	Conversion price	Coupon date	Maximum number of ordinary shares of the Company can be converted	Principal amount as at 31 December 2018	Principal amount as at 31 December 2017
October 2017 CB	20 October 2017	20 October 2019 (Original maturity date of 20 October 2018)	Any time after 6 months from the issuance date to a business day immediately before the maturity date	HK$4.4625	4.5% p.a.	44,817,927	HK$200.0 million	HK$200.0 million
November 2017 CB	13 November 2017	13 November 2018	Any time after 6 months from the issuance date to a business day immediately before the maturity date	HK$4.98	4.5% p.a.	31,325,301	—	US$20.0 million
February 2018 CB	1 February 2018	1 February 2019	Any time after 12 months from the issuance date to a business day immediately before the maturity date	HK$4.4625	4.5% p.a.	38,453,781	US$22.0 million	—

27. CONVERTIBLE BONDS (continued)

The maturity date of October 2017 CB and November 2017 CB may be extended to the second anniversary of the issue date of the October 2017 CB and for 18 months after the issue date of the November 2017 CB respectively, if agreed by both the Company and the bondholders in writing prior to the original maturity date.

At 10 May 2018, the Company, the guarantor and the bondholder of October 2017 CB entered into a supplemental deed for the extension of the maturity date of October 2017 CB to 20 October 2019. A loss on extinguishment of October 2017 CB amounting to approximately RMB9,229,000 (inclusive of the expense incurred for the extinguishment of the liability of approximately RMB4,866,000) was recognised in the profit or loss for the year ended 31 December 2018 as a results of the substantial modification of term of October 2017 CB.

The maturity date of February 2018 CB may be extended to the second anniversary of the issue date of February 2018 CB, if agreed by both the Company and the bondholders in writing prior to the original maturity date.

Conversion price of all the convertible bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues and other dilutive events which may have impacts on the rights of the holder. All of the convertible bonds are guaranteed by Mr. Ke, the Chairman, executive director and the controlling shareholder of the Company.

No conversion of convertible bonds of the Company was made during both periods.

27. CONVERTIBLE BONDS (continued)

The proceeds received from the issue of the convertible bonds have been split between the liability and derivative components as follows:

	October 2017 CB RMB'000	November 2017 CB RMB'000	February 2018 CB RMB'000	Total RMB'000
Nominal value of convertible bonds issued	170,000	132,600	139,040	441,640
Transaction cost related to liability component	(4,932)	(4,281)	—	(9,213)
Derivative component	(29,085)	(10,290)	(5,258)	(44,633)
Liability component at date of issue	135,983	118,029	133,782	387,794
Liability component at date of issue	135,983	118,029	—	254,012
Interest charged	9,584	3,368	—	12,952
Exchange alignment	(2,764)	(2,073)	—	(4,837)
Liability component as at 31 December 2017 and 1 January 2018	**142,803**	**119,324**	—	**262,127**
Liability component at date of issue	—	—	**133,782**	**133,782**
Extinguishment of liability	**(153,165)**	—	—	**(153,165)**
Recognition of new liability	**157,528**	—	—	**157,528**
Interest charged	**28,840**	**21,763**	**17,522**	**68,125**
Interest paid	**(7,579)**	**(6,012)**	**(3,294)**	**(16,885)**
Repayments	—	**(10,726)**	—	**(10,726)**
Reclassified as other borrowing	—	**(132,587)**	—	**(132,587)**
Exchange alignment	**9,951**	**8,238**	**13,402**	**31,591**
Liability component as at 31 December 2018	**178,378**	—	**161,412**	**339,790**
Derivative component at date of issue	29,085	10,290	—	39,375
Fair value gain for the year	(20,171)	(5,640)	—	(25,811)
Exchange alignment	(513)	(171)	—	(684)
Derivative component as at 31 December 2017 and 1 January 2018	**8,401**	**4,479**	—	**12,880**
Derivative component at date of issue	—	—	**5,258**	**5,258**
Fair value gain for the year	**(8,247)**	**(4,754)**	**(5,757)**	**(18,758)**
Exchange alignment	**483**	**275**	**499**	**1,257**
Derivative component as at 31 December 2018	**637**	—	—	**637**

27. CONVERTIBLE BONDS (continued)

The interest charged is calculated by applying the effective interest rate of 21.6% and 14.0% to the liability component of November 2017 CB and February 2018 CB respectively per annum since the convertible bonds were issued.

The interest charged is calculated by applying the effective interest rate of 37.4% to the liability component of October 2017 CB per annum since the convertible bonds were issued and up to 9 May 2018, before the maturity date of October 2017 CB was extended starting from 10 May 2018 as mentioned above. After the extension, the interest charged is calculated by applying the effective interest rate of 10.7% to the liability component of October 2017 CB per annum.

The directors of the Company estimate the fair values of the liability component of October 2017 CB, November 2017 CB and February 2018 CB at 31 December 2018 to be approximately RMB178,378,000 (2017: RMB142,803,000), RMB Nil (2017: RMB119,324,000) and RMB161,412,000 (2017: Nil) respectively. These fair values have been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	October 2017 CB			November 2017 CB			February 2018 CB		
	31 December 2018	31 December 2017	Date of issue	**31 December 2018**	31 December 2017	Date of issue	**31 December 2018**	31 December 2017	Date of issue
Weighted average share price	**HK$2.02**	HK$3.38	HK$4.40	—	HK$3.38	HK$3.93	**HK$2.02**	—	HK$3.06
Weighted average exercise price	**HK$4.4625**	HK$4.4625	HK$4.4625	—	HK$4.98	HK$4.98	**HK$4.4625**	—	HK$4.4625
Expected volatility	**47%**	44%	40%	—	44%	40%	**34%**	—	43%
Expected life	**0.8 year**	0.8 year	1 year	—	0.87 year	1 year	**0.1 year**	—	1 year
Risk free rate	**1.83%**	1.04%	0.72%	—	1.68%	1.54%	**2.33%**	—	1.88%
Expected dividend yield	**0%**	0%	0%	—	0%	0%	**0%**	—	0%

Information about level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Effect on fair value for increase of inputs
Derivative component embedded in convertible bonds	**Binomial option pricing model**	**Expected volatility**	**34% to 47%** (2017: 40% to 44%)	**Increase**

The fair value of derivative component embedded in convertible bonds is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 31 December 2018, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's profit by approximately RMB328,000 and RMB325,000 (2017: decreased profit by approximately RMB3,475,000 and increased profit by RMB2,719,000) respectively.

28. UNSECURED NOTES

	2018 RMB'000	2017 RMB'000
Unsecured notes	**492,667**	433,580

On 13 October 2017, the Company issued an 1 year HIBOR plus 3.62% per annum interest bearing unsecured note with an independent third party investor in the aggregate principal amount of US$50.0 million which will be due on 13 October 2019 and extendable for one year if agreed by both the Company and the notes holder in writing prior to the maturity date.

On 30 October 2017, the Company issued an 6.5% per annum interest bearing unsecured note with independent third party investors in the aggregate principal amount of US$25.0 million which will be due on 30 October 2019 and extendable for one year if agreed by both the Company and the notes holder in writing prior to the maturity date.

All of the unsecured notes are guaranteed by Mr. Ke, the Chairman, executive director and the controlling shareholder of the Company.

29. DEFERRED CONSIDERATION

The amount was due to Ms. Ke Jinzhen (the daughter of Mr. Ke, the Chairman and executive director of the Company, a connected person of the Company) and was unsecured and interest free. The fair value of the deferred consideration was the present value of the consideration discounted at a rate of 8.8% (2017: 4.9%) which will be settled on agreed maturity date at August 2021 (2017: August 2019).

30. DEFERRED TAXATION

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

	Undistributable profits of PRC subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2017	24,500	—	24,500
Acquisition of subsidiaries	—	38,285	38,285
Charge to profit or loss (Note 12)	7,000	(2,188)	4,812
At 31 December 2017 and 1 January 2018	**31,500**	**36,097**	**67,597**
Charge to profit or loss (Note 12)	**7,000**	**(4,046)**	**2,954**
At 31 December 2018	**38,500**	**32,051**	**70,551**

30. DEFERRED TAXATION (continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries of the Group from 1 January 2008 onwards. As at 31 December 2018, deferred tax liability has been provided in respect of approximately RMB385,000,000 (2017: RMB315,000,000) undistributed earnings of the Group's PRC Subsidiaries. Deferred tax has not been provided in respect of the remaining temporary differences attributable to the undistributed earnings as the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

The unused tax losses available for offset against future profits of the Group are as follows:

	2018 RMB'000
Will be expired in:	
2019	192
2020	3,744
2021	976
Unused tax losses available for offset against future profits	4,912

As at 31 December 2018, the aggregate amount of undistributed earnings of the Group's PRC Subsidiaries in respect of which deferred tax liability has not been provided for were approximately RMB4,073,683,000 (2017: RMB2,325,356,000).

31. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2017	1,186,236,339	118,623,634
Share repurchased and cancelled (Note a)	(7,471,000)	(747,100)
Issue of new shares on acquisition (Note b)	76,793,373	7,679,337
At 31 December 2017 and 1 January 2018	1,255,558,712	125,555,871
Share repurchased and cancelled (Note a)	(12,533,000)	(1,253,300)
At 31 December 2018	1,243,025,712	124,302,571

31. SHARE CAPITAL (continued)

	2018	2017
	RMB'000	RMB'000
Presented in RMB		
Share capital	**107,330**	108,397

Notes:

(a) During the years ended 31 December 2017 and 2018, the Company repurchased its own shares through the Stock Exchange as follows:

For the year ended 31 December 2018

Month of repurchases	**Number of ordinary share of HK$0.10 each**	**Price paid per share Highest HK$**	**Price paid per share Lowest HK$**	**Aggregate consideration paid (including expenses) RMB'000**
September 2018	**700,000**	**2.52**	**2.41**	**1,523**

For the year ended 31 December 2017

Month of repurchases	Number of ordinary share of HK$0.10 each	Price paid per share Highest HK$	Price paid per share Lowest HK$	Aggregate consideration paid (including expenses) RMB'000
January 2017	3,800,000	1.99	1.85	6,633
November 2017	2,654,000	3.65	3.54	8,170
December 2017	9,179,000	3.60	3.54	28,130
	15,633,000			42,933

During the year ended 31 December 2017, 3,671,000 and 3,800,000 ordinary shares repurchased by the Company in the years ended 31 December 2016 and 2017 were cancelled respectively, and the remaining of 11,833,000 ordinary shares repurchased by the Company in the year ended 31 December 2017 were cancelled on 9 February 2018.

During the year ended 31 December 2018, all the ordinary shares repurchased by the Company were cancelled on 19 December 2018.

(b) On 31 August 2017, 76,793,373 ordinary shares of par value HK$0.01 each of the Company was issued as part of the consideration in acquiring 39.0% equity interests in Xin Wing. The fair value of the shares issued determined using the published price available at the date of completion of the acquisition is approximately RMB151,741,000, of which approximately RMB6,558,000 was credited to share capital and the remaining balance of approximately RMB145,183,000 was credited to the share premium account.

31. SHARE CAPITAL (continued)

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

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

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

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

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Total debt comprises bank borrowings, liability component of convertible bonds and unsecured notes. Adjusted capital comprises all components of equity (i.e. share capital, share premium, accumulated profits and other reserves) except for non-controlling interests.

The debt-to-adjusted capital ratios at 31 December 2018 and at 31 December 2017 were as follows:

	2018 RMB'000	2017 RMB'000
Total debt	**2,169,218**	2,145,637
Less: cash and cash equivalents	**(519,639)**	(846,343)
Net debt	**1,649,579**	1,299,294
Total equity	**4,436,509**	3,792,192
Debt-to-adjusted capital ratio	**37%**	34%

The increase in the debt-to-adjusted capital ratio during 2018 resulted primarily from increase in net debt outweighed the increase in total equity.

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

Based on the information provided by the share registrars of the Company and to the best of the directors' knowledge and information, the Company had continuously maintained sufficient public float throughout the year.

Breaches in meeting the financial covenants would permit the banks and other lenders, convertible bonds holders and unsecured notes holders to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2018 and 2017.

32. RESERVES

THE GROUP

	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Share repurchase reserve RMB'000	Statutory surplus reserve RMB'000 (Note c)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2017	44,016	257,299	67,866	(6,342)	245,052	2,011,011	2,618,902
Profit and total comprehensive income for the year	—	—	—	—	—	961,981	961,981
Share repurchased (Note 31(a))	—	—	—	(42,933)	—	—	(42,933)
Share cancelled (Note 31(a))	(12,313)	—	—	12,975	—	—	662
Issue of new shares on acquisition of subsidiaries (Note 31(b))	145,183	—	—	—	—	—	145,183
Appropriation	—	—	—	—	76,769	(76,769)	—
At 31 December 2017 and 1 January 2018	176,886	257,299	67,866	(36,300)	321,821	2,896,223	3,683,795
Profit and total comprehensive income for the year	—	—	—	—	—	661,041	661,041
Acquisition of non-controlling interests	—	—	—	—	—	(15,201)	(15,201)
Share repurchased (Note 31(a))	—	—	—	(1,523)	—	—	(1,523)
Share cancelled (Note 31(a))	(36,756)	—	—	37,823	—	—	1,067
Appropriation	—	—	—	—	27,695	(27,695)	—
At 31 December 2018	140,130	257,299	67,866	—	349,516	3,514,368	4,329,179

THE COMPANY

	Share premium RMB'000	Capital reserve RMB'000	Share repurchase reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	44,016	5,690	(6,342)	(234,796)	(191,432)
Profit and total comprehensive income for the year	—	—	—	17,519	17,519
Share repurchased (Note 31(a))	—	—	(42,933)	—	(42,933)
Share cancelled (Note 31(a))	(12,313)	—	12,975	—	662
Issue of new shares on acquisition of subsidiaries (Note 31(b))	145,183	—	—	—	145,183
At 31 December 2017 and 1 January 2018	176,886	5,690	(36,300)	(217,277)	(71,001)
Loss and total comprehensive expense for the year				(325,158)	(325,158)
Share repurchased (Note 31(a))	—	—	(1,523)	—	(1,523)
Share cancelled (Note 31(a))	(36,756)	—	37,823	—	1,067
At 31 December 2018	140,130	5,690	—	(542,435)	(396,615)

32. RESERVES (continued)

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

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

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

33. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

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

Both the Group and the employee contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,500 (equivalent to approximately RMB1,325) (2017: HK$1,500 (equivalent to approximately RMB1,253)) to the MPF Scheme.

(b) Social security and benefits for PRC employees

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

The total cost charged to profit or loss of approximately RMB10,053,000 (2017: RMB5,924,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2018.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

In August 2017, the Group completed the further acquisition of 39.0% equity interests of Xin Wing. The consideration for the acquisition is US$151,437,000 which included: 1) the share consideration of US$22,715,550 which was satisfied by the allotment and issue of 76,793,373 new shares of the Company on completion date; 2) the first consideration of US$68,146,650 which was settled in cash on completion date, and 3) the deferred consideration of US$60,574,800 which should be paid within 24 months from completion date.

The fair value of the identifiable assets and liabilities of Xin Wing acquired as at the date of acquisition are as follows:

	Notes	RMB'000
Assets acquired and liabilities recognised at the date of acquisition	(i)	
Property, plant and equipment	17	473,978
Prepaid lease payments		221,687
Intangible assets	20	239,216
Inventories		25,946
Trade and other receivables		872,060
Bank balances and cash		271,584
Trade and other payables		(95,765)
Income tax payables		(53,221)
Bank borrowings		(153,000)
Deferred taxation		(38,285)
Sub-total		1,764,200
Non-controlling interests		(352,839)
Goodwill	19	613,498
Total		2,024,859
Satisfied by:		
Cash		455,220
Issue of new shares of the Company, at fair value	(ii)	151,740
Deferred consideration	(iii)	380,159
Fair value of previously held interests in an associate	(iv)	1,037,740
Total		2,024,859

	RMB'000
Net cash outflow arising on acquisition	
Cash consideration paid	455,220
Less: bank balances and cash acquired	(271,584)
	183,636

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Acquisition of subsidiaries (continued)

Notes:

(i) The fair value of the assets acquired and liabilities recognised at the date of acquisition were determined by reference to valuations conducted by an independent external valuer using business valuation techniques. The fair value of the trade and other receivable acquired is approximately RMB872,060,000.

(ii) The fair value of the share consideration (consideration shares) is estimated with reference to the closing price of the Company's shares at the completion date.

(iii) The fair value of the deferred consideration was the present value of the consideration discounted at a rate of 4.9% which should be settled within 24 months from August 2017. The fair value of the contingent consideration arising from the profit guarantee of Xin Wing Group for the year ended 31 December 2017 was not recognised in the consolidated financial statements of the Group for the then year ended as the profit guarantee had been met.

(iv) As at the acquisition date, the fair value of 41.0% equity interests of Xin Wing held by the Group was re-measured to approximately RMB1,037,740,000 which was determined by the external valuer using business valuation techniques which involved estimation of cash inflows and outflows, growth rates in future cash flow and discount rate. Compared with its carrying amount of approximately RMB694,000,000, the gain on deemed disposal of an associate of approximately RMB343,740,000 was recognised in the consolidated statement of profit or loss and other comprehensive income.

The goodwill arising on the acquisition of Xin Wing is measured as the excess of the sum of the consideration transferred over the identifiable assets acquired and the liabilities assumed at the date of acquisition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition related costs of approximately RMB5.2 million have been charged to administrative expenses in the consolidated statement of profit or loss of the Group for the year ended 31 December 2017.

Included in the profit for the year ended 31 December 2017 is approximately RMB140,703,000 attributable to Xin Wing Group since it became subsidiaries of the Group. Revenue for the year ended 31 December 2017 includes approximately RMB374,639,000 generated from Xin Wing Group since it became subsidiaries of the Group.

Had the acquisition of Xin Wing Group been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2017 would have been approximately RMB3,269,907,000 and the amount of the profit for the year ended 31 December 2017 would have been approximately RMB1,298,742,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 RMB'000	Cash flows RMB'000	Exchange difference RMB'000	Interest expenses RMB'000	Net interest payable transfer to other accrued expenses RMB'000	Re-classified (from) to other borrowings RMB'000	Others RMB'000	31 December 2018 RMB'000
Bank and other borrowings (note 26)	1,449,930	(378,293)	60,389	75,633	(3,485)	132,587	—	1,336,761
Convertible bonds (note 27)	262,127	111,429	31,591	68,125	—	(132,587)	(895)	339,790
Unsecured notes (note 28)	433,580	(30,709)	25,683	59,782	4,331	—	—	492,667

	1 January 2017 RMB'000	Cash flows RMB'000	Exchange difference RMB'000	Interest expenses RMB'000	Net interest payable transfer to other accrued expenses RMB'000	Acquisition of subsidiaries RMB'000	31 December 2017 RMB'000
Bank and other borrowings (note 26)	1,681,098	(365,313)	(81,095)	66,468	(4,228)	153,000	1,449,930
Convertible bonds (note 27)	—	254,012	(4,837)	12,952	—	—	262,127
Unsecured notes (note 28)	—	440,895	(7,315)	11,032	(11,032)	—	433,580

35. RELATED PARTY TRANSACTIONS

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

	2018 RMB'000	2017 RMB'000
Acquisition of equity interest in Xin Wing (Note 34(a))	—	987,119

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	5,083	4,647
Post-employment benefits	135	106
	5,218	4,753

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

36. LEASE COMMITMENTS

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise during the year ended 31 December 2018 were approximately RMB1,361,000 (2017: RMB361,000).

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

	2018 RMB'000	2017 RMB'000
Within one year	1,391	73
In the second to fifth year inclusive	232	—
	1,623	73

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

37. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	438,129	260,543
Acquisition of prepaid lease payments	—	6,970
Acquisition of 17.37% (2017: 20%) equity interest in Xin Wing	415,615	471,128

38. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2018 and 2017 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of ownership interest and voting power held by the Company		Principal activities
				2018	2017	
Xi Yuan Paper Limited	British Virgin Islands ("BVI")	Hong Kong	1 ordinary share of US$1	100% (directly)	100% (directly)	Investment holding
Xin Wing	BVI	PRC	50,000 ordinary shares of US$1 each	82.63% (indirectly)	80% (indirectly)	Investment holding
Sunwell Trading (HK) Company Limited	Hong Kong	Hong Kong	10,000,000 ordinary shares	100% (indirectly)	100% (indirectly)	Investment holding
Yi Yuan (Hong Kong) Holdings Limited	Hong Kong	Hong Kong	10,000 ordinary shares	82.63% (indirectly)	80% (indirectly)	Investment holding
Huaxiang*	PRC	PRC	RMB542,334,612	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and other products in the PRC
Senry*	PRC	PRC	RMB583,128,401	82.63% (indirectly)	80% (indirectly)	Manufacturing and distribution of wall paper in the PRC
Taisheng*	PRC	PRC	RMB10,000,000	82.63% (indirectly)	80% (indirectly)	Manufacturing of wall paper in the PRC
Xiyuan*	PRC	PRC	HK$300,000,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and wall paper backing paper and copy paper in the PRC
Youlanfa*	PRC	PRC	RMB128,880,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper, copy paper and other products in the PRC

* These subsidiaries are wholly foreign owned enterprises.

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

38. INVESTMENTS IN SUBSIDIARIES (continued)

The following table shows information on the subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Xin Wing Group**	
Principal place of business	**PRC**	
	As at 31 December 2018	As at 31 December 2017
% of ownership interests/voting rights held by NCI	**17.37%/17.37%**	20%/20%
	RMB'000	RMB'000
Non-current assets	**1,116,068**	1,092,882
Current assets	**1,293,507**	1,072,007
Non-current liabilities	**(32,051)**	(51,097)
Current liabilities	**(561,065)**	(208,889)
Net assets	**1,816,459**	1,904,903
Accumulated NCI	**315,519**	380,981

38. INVESTMENTS IN SUBSIDIARIES (continued)

	Year ended 31 December 2018 RMB'000	Period from 1 September 2017 to 31 December 2017 RMB'000
Revenue	**1,199,710**	374,639
Profit and total comprehensive income	**372,119**	140,703
Profit allocated to NCI	**64,637**	28,142
Dividends to NCI	**80,000**	—
Net cash (used in) generated from operating activities	**(16,352)**	128,995
Net cash generated from (used in) investing activities	**648**	(48,547)
Net cash used in financing activities	**(135,979)**	(32,097)
Net (decrease) increase in cash and cash equivalents	**(151,683)**	48,351

As at 31 December 2018, the bank and cash balances of the Group' subsidiaries in the PRC denominated in RMB amounted to approximately RMB513,676,000 (2017: RMB524,986,000). The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated cash and cash equivalents and short-term bank deposits out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

During the year ended 31 December 2018, the Group acquired 2.63% of its interest in Xin Wing Group, increasing its continuing interest to 82.63%. The consideration on acquisition of approximately RMB65,300,000 was paid in cash. An amount of approximately RMB50,099,000 (being the proportionate share of the carrying amount of the net assets of Xin Wing Group) has been transferred from non-controlling interests (refers to the consolidated statement of changes in equity of the Group for the year ended 31 December 2018). The difference of approximately RMB15,201,000 between the decrease in the non-controlling interests and the consideration paid has been debited to accumulated profits.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	215,916	215,916
	215,916	215,916
CURRENT ASSETS		
Prepayments and other receivables	—	6,508
Amounts due from subsidiaries	1,718,665	1,626,045
Derivative financial assets	3,273	—
Bank balances and cash	4,226	134,692
	1,726,164	1,767,245
CURRENT LIABILITIES		
Other payables and accrued expenses	32,938	37,941
Amount due to a subsidiary	130,572	—
Bank and other borrowings	1,234,761	453,140
Convertible bonds	339,790	262,127
Derivative component of convertible bonds	637	12,880
Unsecured notes	492,667	—
Derivative financial liabilities	—	4,307
	2,231,365	770,395
NET CURRENT (LIABILITIES) ASSETS	(505,201)	996,850
TOTAL ASSETS LESS CURRENT LIABILITIES	(289,285)	1,212,766
NON-CURRENT LIABILITIES		
Bank and other borrowings	—	741,790
Unsecured notes	—	433,580
	—	1,175,370
NET (LIABILITIES) ASSETS	(289,285)	37,396
CAPITAL AND RESERVES		
Share capital (Note 31)	107,330	108,397
Reserves (Note 32)	(396,615)	(71,001)
(CAPITAL DEFICIENCIES) TOTAL EQUITY	(289,285)	37,396

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	1,543,920	1,702,664	1,799,488	2,638,825	**4,059,840**
Profit before tax	322,330	285,840	387,248	1,080,971	**991,727**
Income tax expense	(49,360)	(61,959)	(76,615)	(90,848)	**(266,049)**
Profit and total comprehensive income for the year	272,970	223,881	310,633	990,123	**725,678**
Profit and total comprehensive income attributable to					
– owners of the Company	272,970	223,881	310,633	961,981	**661,041**
– non-controlling interests	—	—	—	28,142	**64,637**
	272,970	223,881	310,633	990,123	**725,678**

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	3,940,664	4,149,802	4,694,861	7,308,311	**7,865,938**
Total liabilities	(1,638,716)	(1,732,690)	(1,973,458)	(3,135,138)	**(3,113,910)**
	2,301,948	2,417,112	2,721,403	4,173,173	**4,752,028**
Equity					
Equity attributable to owners of the Company	2,301,948	2,417,112	2,721,403	3,792,192	**4,436,509**
Non-controlling interests	—	—	—	380,981	**315,519**
	2,301,948	2,417,112	2,721,403	4,173,173	**4,752,028**