Champion Alliance International Holdings Limited
冠均國際控股有限公司

(Formerly known as Mengke Holdings Limited (盟科控股有限公司))
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1629

ANNUAL REPORT **2018**

LEADING IN INNOVATION
STRIVING FOR EXCELLENCE

Champion Alliance International Holdings Limited
ANNUAL REPORT **2018**

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CORPORATE INFORMATION

Name of directors
Mr. Chen Shuming
(Chairman and Executive Director)
Mr. He Guangrui
(Executive Director)
Mr. Hu Enfeng
(Executive Director)
Mr. Chen Xiaolong
(Executive Director)
Mr. Zhang Shihua
(Executive Director)
Mr. Zhan Qingtao
(Executive Director)
Mr. Chen Hua
(Independent non-executive Director)
Mr. Zhao Zhendong
(Independent non-executive Director)
Mr. Chan Yee Ping Michael
(Independent non-executive Director)

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

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

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

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

Company secretary
Mr. Lau Ka Ming

Authorised representatives
Mr. Chen Shuming
Mr. Lau Ka Ming

Audit committee
Mr. Chan Yee Ping Michael *(Chairman)*
Mr. Chen Hua
Mr. Zhao Zhendong

Remuneration committee
Mr. Chen Hua *(Chairman)*
Mr. Chen Shuming
Mr. Zhao Zhendong

Nomination committee
Mr. Chen Shuming *(Chairman)*
Mr. Zhao Zhendong
Mr. Chan Yee Ping Michael

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

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

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

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

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

Stock code
1629

Dear Shareholders,

On behalf of the board of directors (the "Board") of Champion Alliance International Holdings Limited (formerly known as "Mengke Holdings Limited") (the "Company" or "Champion Alliance International Holdings"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 the ("Year").

For the year ended 31 December 2018, the Group's revenue was approximately RMB217.5 million, representing a year-on-year decrease of approximately 8.7%. Gross profit amounted to approximately RMB33.0 million, representing a year-on-year decrease of approximately 26.7%. Gross profit margin was approximately 15.1%. Loss for the year amounted to approximately RMB4.6 million.

In late 2018, the tobacco industry meets the requirements in the "Action Plan on Key Mission of Three Eliminations, One Decrease and One Addition (2017-2018)" issued by the State Tobacco Monopoly Administration in 2017 and the inventory has been destocked at the end of 2018. However, affected by the Chinese policy framework towards the tobacco industry, the total production of cigarette has brought down by 10%, from approximately 51 million boxes to approximately 46 million boxes.

Despite various challenges, the Group will seize the key opportunities that emerge with the restructure of the tobacco industry by changing our product structure, launching new products, opening up new markets and stepping up our efforts in sales and marketing.

With the arrival of the peak season, the demand is expected to increase. During the year, there were 9 projects currently going through tendering or under negotiations. Relevant product development for several new customers has matured and will gradually translate into new orders. Recovery of the tobacco market is expected in 2019. The Group is optimistic towards the future development of the cigarette packaging industry and will expand the market share by exploring new markets and consolidating existing markets.

Besides, with the stable economic development in China, the living standard of consumers in Mainland China has been rising constantly, bringing a massive room for development and abundant business opportunities for household paper product industry and new energy suppliers providing steam for industrial use, heating supply, and electricity supply. In the coming years, the Group will proactively diversify business with paper production and products, new energy operation as the core business and strive for providing products with high quality. We will uphold our core value of "Hundred-year Brand, Hundred-year Foundation".

Looking ahead, the Group will continue to build a quality brand and step up its efforts to strengthen its market position and broaden the coverage of the sales network. We will continue to improve the research and development works of our products and expand our production capacity to extend footprints to new markets to meet future needs. Meanwhile, we will further expand our consumer market business and create greater value for our shareholders and society in the long term.

CHAIRMAN'S STATEMENT

On behalf of the Board, I would like to express my gratitude to the continuous trust and support of all shareholders, investors, business partners and customers. The management team and all staff members of the Group will continue striving for better results for the Group together and bringing higher returns to the shareholders.

Chen Shuming
Chairman and Executive Director

Hong Kong, 28 March 2019

The Group is principally engaged in the production of metallised packaging paper for cigarette package manufacturers, having an operating history of more than 10 years, with two main lines of products, being transfer metallised paper and laminated metallised paper. In 2015, the Group had the largest market share of 16.0% in Hubei Province, China in terms of sales of cigarette packaging paper. Our customers include some of the "Top 100 Enterprises" in the printing industry awarded by the 2017 China Printing Manager Annual Conference, including Hubei Golden and other leading cigarette package manufacturers in China, such as Beijing Leigh–mardon Pacific Packaging Co., Ltd., Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited.

MARKET REVIEW

In 2017, the "Action Plan on Key Mission of Three Eliminations, One Decrease and One Addition (2017–2018)" issued by the State Tobacco Monopoly Administration stimulated industry-wide destocking. The Action Plan requires that the total amount of national tobacco stocks must not exceed 50 million boxes by the end of 2017. Consequently, there was a significant decrease in the year-end stocking of customers. Although the inventory has been destocked to a lower stock level at the end of 2018, the influence of Chinese policy framework towards the tobacco industry has brought down the total production by approximately 10%, from approximately 51 million boxes to approximately 46 million boxes in the year of 2018.

BUSINESS REVIEW

Sales and Marketing

During the period under review, the Group continued to expand into new markets in China. We are committed to bringing in new clients through non-tendering ways like business negotiations. For the Year, there are 9 projects currently going through tendering or under negotiations. It has been a low season for the cigarette packaging industry since early 2018. Through our communication with the clients to follow up on their production status and understanding the strategies of our competitors, the Group has consolidated the original market. New clients are also going through a phase of rapid development. The Group has explored new customers in Yunnan Province, Guangdong Province, Hubei Province, and Jiangsu Province. The Group experienced drops in sales, primarily owing to the lower demand for transfer metallised paper from two of the Group's main customers, while there is a significant increase in revenue from laminated metallised paper and processing service.

In 2018, a general offer was made to the shareholders of the Company from 19 November 2018 to 10 December 2018 and the control in the Group changed. Champion Alliance International Corporation became the controlling shareholder of the Company after the general offer. The change of controlling shareholder of the Company has not affected the business of the Group.

The Group hired a total of 11 sales representatives to formulate marketing strategies, devise marketing plans, manage sales business, organise cargo transportation and develop customer service model, in order to boost our sales. We place customer satisfaction the top priority. Our marketing team provides full services from product development, order protection, and market maintenance, to after-sales and technical services. Our sales representatives pay monthly visits to customers for in-depth communication and marketing trend proficiency, as well as organise half-yearly customer satisfaction survey to better understand customers' needs and to collect feedback.

Production Capacity

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

The below table sets forth the production efficiency and utilisation rates of the production base for the year ended 31 December 2018, together with the comparative figures for the corresponding period in 2017. The actual production volume in the reporting period reduced by approximately 2.6% as compared with that of 2017, which was primarily due to the stricter control of tobacco production and the increase in the price of raw materials thus resulted in a reduction in the utilisation rate.

	Year ended 31 December	
	2018	2017
Production capacity (thousand metres)	**222,264**	222,264
Actual production volume (thousand metres)	**106,808**	112,577
Utilisation rate	**48.1%**	50.7%

The Group has employed part of the net proceeds raised from the listing of the shares of the Company (the "**Shares**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 25 November 2016 (the "**Listing**") to upgrade current production facilities and expand capacity. Details on the use of net proceeds from the Listing will be laid out below under the paragraph headed "Use of Net Proceeds from the Listing" in the Directors' Report in this report.

Quality Control

As of 31 December 2018, the Group had a total of 8 quality control staff members. The Group strictly complies with the quality control procedures to ensure our products meet the quality standards.

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

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the revenue was approximately RMB217.5 million (2017: RMB238.3 million), representing a decrease of approximately 8.7% as compared with the same period in 2017. The decrease in revenue was primarily due to (i) the lower demand for our products caused by stricter control of tobacco production; (ii) fewer orders resulted from fiercer competition; and (iii) increasing demand for higher quality products owing to rising eco-awareness.

The following table sets forth the breakdown of the Group's revenue for the years ended 31 December 2018 and 2017:

	Year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	%
Cigarette packaging product — transfer metallised paper	**190,080**	224,528	(15.3%)
Cigarette packaging product — laminated metallised paper	**26,677**	13,737	94.2%
Processing service income	**734**	45	1,531.1%
Total	**217,491**	238,310	(8.7%)

Gross Profit and Gross Profit Margin

The Group's gross profit decreased by approximately 26.7% from approximately RMB44.9 million for the year ended 31 December 2017 to approximately RMB33.0 million for the year ended 31 December 2018. The decrease was due to the rising production cost caused by the increase in the prices of raw materials. The gross profit margin decreased by 3.8% from approximately 18.9% to 15.1%.

Other Income and Other Losses — Net

For the year ended 31 December 2018, the Group's other income consisted of rental income, subsidy income and sales of raw materials and waste materials. Other expenses and other losses included cost of rental and exchange losses. The net of other income and other losses decreased from approximately RMB5.9 million in 2017 to approximately RMB698,000 in 2018, mainly due to the receive of government grants of approximately RMB5.3 million in 2017.

Distribution Expenses

For the year ended 31 December 2018, distribution expenses mainly consisted of costs of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) other expenses. The distribution expenses decreased by RMB3.7 million to RMB14.2 million in 2018, as compared to RMB18.0 million in 2017. The decrease was mainly due to the decrease in transportation expenses.

Administrative Expenses

For the year ended 31 December 2018, administrative expenses mainly consisted of (i) staff costs; (ii) research and development expenses; (iii) depreciation and amortisation; (iv) entertainment expenses; (v) other taxes and surcharges; and (vi) other expenses. Administrative expenses decreased from approximately RMB24.9 million in 2017 to approximately RMB24.1 million in 2018. The decrease in administrative expenses of the Group was mainly due to the decrease in other taxes and surcharges.

Finance Expenses — Net

For the year ended 31 December 2018, net finance expenses represented the net amount of finance income and finance expenses. Finance income consisted of interest income from bank deposits and exchange gains. Finance expenses consisted of interest expenses from bank borrowings and discount charges on bank acceptance notes. The net finance expenses were approximately RMB470,000 in 2018, as compared to approximately RMB549,000 in 2017. The decrease in net finance expenses was mainly due to the decrease in interest expenses from bank borrowing.

Income Tax (Credit)/Expense

The Group's income tax credit was approximately RMB1.3 million in 2018. The Group's income tax expense was approximately RMB1.7 million in 2017.

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

For the year ended 31 December 2018, the Group's loss attributable to equity holders of the Company was approximately RMB4.6 million (profit attributable to equity holders of the Company for the year ended 31 December 2017: approximately RMB4.7 million). The turnaround from profit to loss was mainly due to the decrease in sales of transfer metallised paper.

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB66.2 million as at 31 December 2018, while the net current assets as at 31 December 2017 was approximately RMB67.9 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 31 December 2018 were RMB15.0 million (as at 31 December 2017: RMB15.0 million). The Group's gearing ratio increased from approximately 14.6% as at 31 December 2017 to approximately 18.1% as at 31 December 2018. The increase in the gearing ratio is primarily from the increase in amounts due to a third party. Gearing ratio was calculated by dividing total debt (which consisted of borrowings, amounts due to a third party and amounts due to a related party) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the year ended 31 December 2018, the Group's total capital expenditure amounted to approximately RMB352,000, which was mainly used in acquisition of office equipment and assets under construction (2017: approximately RMB3.9 million).

Treasury Policies

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

Capital Structure

The capital structure of the Group consists of equity attributable to owners of the Company, which comprises issued share capital and reserves. During the year ended 31 December 2018, there had been no change in the number of issued share in the Company.

Charge on Assets

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

	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*
Prepaid operating lease	**11,767**	12,104
Property, plant and equipment	**25,367**	23,725
Trade receivables	**24,940**	17,047
Restricted cash	**38,120**	38,719
Total	**100,194**	91,595

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

There were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the year ended 31 December 2018 (2017: nil).

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities (as at 31 December 2017: nil).

Foreign Exchange Risk

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, amounts due to a related party and other payables maintained in Hong Kong dollars ("HK$"). The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2018 (for the year ended 31 December 2017: nil).

Human Resources and Remuneration

As at 31 December 2018, the Group employed 152 employees (as at 31 December 2017: 158) with total staff costs of approximately RMB16.6 million incurred for the same year (for the year ended 31 December 2017: approximately RMB15.9 million). The increase of staff costs of the Group was mainly due to the increase in directors' emoluments. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2018 (2017: nil).

Use of Net Proceeds from the Listing

The Shares were listed on the Main Board of the Stock Exchange on 25 November 2016 with actual net proceeds from the Listing of approximately HK$42.2 million (equivalent to approximately RMB37.6 million) (after deducting underwriting commissions and related expenses). Part of the proceeds has been used in plant electricity distribution work, purchase of production equipment, improvement work of air–conditioning system and investment in operation, market expansion and technical development as contemplated under the prospectus of the Company dated 15 November 2016 (the "Prospectus"). Actual amount of the net proceeds utilised up to 31 December 2018 amounted to approximately RMB13.4 million. As of the date of this report, unutilised net proceeds amounted to approximately RMB24.2 million, which is intended to be invested primarily in production plant, equipment upgrade and technique development according to the disclosure in the section headed "Future Plan and Use of Proceeds" in the Prospectus. As at 31 December 2018, the unutilised portion of the proceeds of approximately RMB24.2 million was placed in interest bearing account with banks and financial institutions in accordance with the disclosure in the Prospectus.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or in this report, there is no other plan for material investments or capital assets as at 31 December 2018.

Capital Commitments

As at 31 December 2018, the Group did not have any capital commitments (as at 31 December 2017: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

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

Increasing regulated industry

The PRC tobacco industry is becoming increasing regulated and our business is subject to various industry requirements. In 2014, the State Tobacco Monopoly Administration (中國國家煙草專賣局) published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. Our products are primarily used for mid to high — end cigarette brands in tier 1 to tier 3. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce cigarette manufacturers' spending on the PRC cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers and drivedown the selling prices of our products.

PRC legislative control and awareness of health concerns

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

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

Dependence on cigarettes prices and economic conditions in China

The slowdown in China's economic growth in recent years has influenced the purchasing power of cigarette consumers, which in turn affected their willingness to spend on cigarettes and therefore, the amount of cigarettes consumption. According to the market research report prepared by Ipsos Limited in November 2016 (the "Ipsos Report"), it is forecasted that the increasing trend in sales volume of cigarettes in China from 2017 to 2020 would slow down, mainly due to the sluggish economic growth in China and an increase in specific tax.

Intense Competition

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

Reliance on Major Customers

For the years ended 31 December 2017 and 2018, revenue from our five largest customers amounted to approximately RMB208.6 million and approximately RMB166.0 million respectively, which accounted for approximately 87.3% and approximately 76.3% of our total revenue for the respective periods.

In order to reduce such reliance and widen our customer base, the Group plans to proactively expand into new markets such as Sichuan Province, Yunnan Province, Zhejiang Province and Hunan Province of China for easing the risk of concentration on income sources.

For more details of the above principal risks and uncertainties and other risks and uncertainties facing the Group, please refer to the section headed "Risk Factors" in the Prospectus.

KEY PERFORMANCE INDICATORS ("KPIS") WITH THE STRATEGY OF THE GROUP

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

Strategy	KPIs	Performance
Maximise value for the Shareholders	Gross profit margin = 15.1% (2017: 18.9%)	The Group managed to maintain stable operational performance during the Year with effective cost control measures and continued to expand into new markets.
Improve the Group's liquidity	Cash and cash equivalents = RMB5.9 million (2017: RMB14.8 million) Current ratio = 1.4 (2017: 1.3) Gearing ratio= 18.1% (2017: 14.6%)	The Group adopts a policy to regularly monitor the liquidity requirements of the Group and the Group's compliance with lending covenants so as to ensure that it maintains sufficient reserves of cash and adequate committed credit facilities from major financial institutions to meet the liquidity requirements of the Group in the short and long term.
Strive for the "zero harm" safety goal	Accident rate = 0% (2017: 0%)	During the Year, the Group has put adequate resources and efforts to uphold and improve its safety management system to reduce its risks related to safety issues. The Company successfully obtained the certification in OHSAS18000 Occupational Health and Safety Assurance System.

FUTURE OUTLOOK

Looking forward, China's economic growth is anticipated to remain stable and the tobacco sector in the country will continue to witness industry upgrades. By changing our product structure, launching new products and stepping up our efforts in sales and marketing, the Group is optimistic towards the future development of the cigarette packaging industry, despite the lower demand for our products caused by stricter control of tobacco production.

With the arrival of the peak season, the demand is expected to increase. Relevant product development for new customers has matured and will gradually translate into new orders. Meanwhile, the Group will solidify existing markets, continue joining the upcoming tender bidding in 2019 and engaging in business negotiation proactively, with a view to obtaining new orders and new customers, thus expanding the market shares.

A general offer was made to the shareholders of the Company from 19 November 2018 to 10 December 2018 and there was a change in control in the Company. The Group will review its business and operations and seek new opportunities to enhance and strengthen the business of the Group. In view of the continuous improvement in the living standards of customers in the PRC, there is an immense potential for further growth in the domestic market for the consumption of household paper and new energy supply, such as steam, heating, and electricity, within the country. In the coming year, we will strive to expand our business in processing, production, and sales of household paper products and sales of steam, heating and electricity, while solidify existing cigarette packaging business. With the new management's experience, background and resources, we hope to place ourselves in a more favorable condition for business development and explore new markets in the future. We will continue to strive for better results and thus to maximise returns to shareholders.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders of the Company (the "Shareholders") this report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 63 of this report.

SEGMENTAL INFORMATION

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2018 are set out in note 11 to the consolidated financial statements.

BUSINESS REVIEW

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

FINAL DIVIDEND

The Board proposed not to declare any final dividend for the Year (2017: nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Monday, 27 May 2019 (the "2019 AGM").

For the purpose of determining Shareholders who are entitled to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 21 May 2019 to Monday, 27 May 2019 (both days inclusive), during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2019 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 20 May 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 76.3% (2017: 87.3%) of the total sales for the Year and the sales attributable to the largest customer included therein accounted for approximately 22.9% of the total sales for the Year (2017: 32.2%).

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 64.1% (2017: 59.6%) of the total purchases for the Year and the purchase attributable to the largest supplier included therein accounted for approximately 24.45% of the total purchases for the Year (2017: 18.3%).

None of the Directors, their close associates or any Shareholders to the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's shares) had any interests in the Group's five largest customers or suppliers.

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

Details of borrowings of the Group as at 31 December 2018 are set out in note 24 to the consolidated financial statements in this report.

SHARE CAPITAL

There was no change in the number of issued shares and the issued share capital during the Year.

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

SUMMARY FINANCIAL INFORMATION

A five-year financial summary of the results and the assets and liabilities of the Group is set out on page 116 of this report.

PRE-EMPTIVE RIGHTS

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

RELIEF OF TAXATION

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

RESERVES

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

USE OF NET PROCEEDS FROM THE LISTING

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

As at 31 December 2018, the net proceeds from the Listing has been utilised as follows:

Use of net proceeds from the Listing	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus	Approximate% of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2018	Balance as at 31 December 2018
	RMB'000		*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,541	19,762
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,259	4,379
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–
Working capital and general corporate purposes	3,758	10%	3,758	–
	37,585	100%	13,444	24,141

As at 31 December 2018, unutilised proceeds amounted to approximately HK$27.2 million (equivalent to approximately RMB24.1 million), which will be invested in production plant, equipment upgrade and technique development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan as to use of net proceeds.

CONNECTED AND RELATED PARTY TRANSACTIONS

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

DIRECTORS

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

Executive Director
Mr. Chen Shuming *(Chairman)* (appointed on 20 November 2018)
Mr. He Guangrui *(Chief Executive Officer)* (appointed on 20 November 2018)
Mr. Hu Enfeng (appointed on 10 December 2018)
Mr. Chen Xiaolong (appointed on 20 November 2018)
Mr. Zhang Shihua (appointed on 20 November 2018)
Mr. Zhan Qingtao (appointed on 20 November 2018)

Independent non-executive Directors
Mr. Chen Hua (appointed on 20 November 2018)
Mr. Zhao Zhendong (appointed on 20 November 2018)
Mr. Chan Yee Ping Michael (appointed on 20 November 2018)

In accordance with article 112 of the articles of association of the Company (the "Articles"), any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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

In accordance with the above provisions of the Articles, all Directors, namely Mr. Chen Shuming, Mr. He Guangrui, Mr. Hu Enfeng, Mr. Chen Xiaolong, Mr. Zhang Shihua, Mr. Zhan Qingtao, Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chan Yee Ping Michael will retire and, being eligible, offer themselves for re-election at the 2019 AGM.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Director has entered into a service agreement with the Company for an initial fixed term of three years commencing from their respective date of appointment, namely 20 November 2018 or 10 December 2018. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three year commencing from their respective date of appointment, namely 20 November 2018. The term of service shall be renewed and extended automatically by three years upon the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

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

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are set out on pages 53 to 57 of this report.

EMOLUMENT POLICY

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

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

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INDEMNITIES AND INSURANCE

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

RETIREMENT BENEFIT SCHEMES

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

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the Company's distributable reserves as at 31 December 2018 amounted to approximately RMB91.0 million.

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

As at 31 December 2018, the following Directors or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

Interests in the Company

Name	Nature of Interest	Number of Shares held (long position)	Approximate percentage of interests
Mr. Chen Shuming *(Note 1)* ("Mr. Chen")	Interest in a controlled corporation	350,000,000 (L)	70%
Mr. He Guangrui *(Note 2)* ("Mr. He")	Interest in a controlled corporation	25,000,000 (L)	5%

Note 1: Mr. Chen beneficially owns 100% of the issued share capital of Champion Alliance International Corporation, a company incorporated in the British Virgin Islands with limited liability. Therefore, Mr. Chen is deemed, or taken to be, interested in the same number of the Shares held by Champion Alliance International Corporation for the purpose of the SFO.

Note 2: Mr. He beneficially owns 100% of the issued share capital of Million Success Group Corporation, a company incorporated in the British Virgin Islands with limited liability. Therefore, Mr. He is deemed, or taken to be, interested in the same number of the Shares held by Million Success Group Corporation for the purpose of the SFO.

Interests in Associated Corporation of the Company

As at 31 December 2018, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name	Name of associated corporation	Capacity	Number of Shares held	Approximate percentage of interests
Mr. Chen	Champion Alliance International Corporation	Beneficial owner	1	100%
Mr. He	Million Success Group Corporation	Beneficial owner	1	100%

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to the Directors, as at 31 December 2018, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or shorts positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO:

Name	Capacity	Total number of Shares held (long position)	Approximate percentage of interests
GF Securities (Hong Kong) Brokerage Limited	Person having a security interest in shares *(Note 1)*	375,000,000	75.00%
GF Securities Co., Ltd.	Interest in a controlled corporation *(Note 1)*	375,000,000	75.00%
GF Holdings (Hong Kong) Corporation Limited	Interest in a controlled corporation *(Note 1)*	375,000,000	75.00%
Champion Alliance	Beneficial owner *(Note 2)*	350,000,000	70.00%
Ms. Chen Xiuchun	Interest of spouse *(Note 3)*	350,000,000	70.00%

Name	Capacity	Total number of Shares held (long position)	Approximate percentage of interests
CM Asset Management (Hongkong) Company Limited	Investment manager	45,704,000	9.14%
Shareholder Value Fund	Beneficial owner	45,704,000	9.14%
Million Success	Beneficial owner *(Note 4)*	25,000,000	5.00%
Ms. Tao Wei	Interest of spouse *(Note 5)*	25,000,000	5.00%

Notes:

1. A security interest in these Shares was acquired by GF Securities (Hong Kong) Brokerage Limited ("GF Securities"), a company incorporated in Hong Kong with limited liability, which is wholly-owned by GF Holdings (Hong Kong) Corporation Limited, which is in turn wholly-owned by GF Securities Co., Ltd. As a result, each of GF Holdings (Hong Kong) Corporation Limited and GF Securities Co., Ltd. is deemed to be interested in these Shares pursuant to the SFO.

2. These Shares were beneficially owned by Champion Alliance, which is wholly-owned by Mr. Chen.

3. Ms. Chen Xiuchun is the spouse of Mr. Chen, who in turn beneficially owns the entire issued share capital of Champion Alliance, and is deemed to be interested in all the Shares in which Mr. Chen is interested pursuant to the SFO.

4. These Shares were beneficially owned by Million Success, which is in turn wholly-owned by Mr. He.

5. Ms. Tao Wei is the spouse of Mr. He, who in turn beneficially owns the entire issued share capital of Million Success, and is deemed to be interested in all the Shares in which Mr. He is interested pursuant to the SFO.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

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

Purpose of the Scheme

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

Qualifying Participants

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

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

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

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

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

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

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

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

Maximum Number of the Shares

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

Maximum Entitlement of Each Eligible Participant

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

Time of Acceptance and Exercise of an Option

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

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

Subscription Price for Shares

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

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

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

(iii) the nominal value of a Share.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTROLLING SHAREHOLDERS' INTEREST

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

DEED OF NON-COMPETITION

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

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the Year.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

AUDIT COMMITTEE

The Company established the audit committee of the Board on 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Chan Yee Ping Michael (as chairman), Mr. Chen Hua and Mr. Zhao Zhendong.

The consolidated financial statements of the Group for the Year together with the notes attached thereto have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group comply with the applicable accounting standards, the Listing Rules and that adequate disclosure has been made.

DONATIONS

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

CONFIRMATION OF INDEPENDENCE

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at 31 December 2018 and up to the date of this report.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

On 17 January 2019, an extraordinary general meeting was held to approve by way of special resolution (i) the change of the English name of the Company from "Mengke Holdings Limited" to "Champion Alliance International Holdings Limited" and its dual foreign name in Chinese from "盟科控股有限公司" to "冠均國際控股有限公司" and (ii) the consequential amendment to the Memorandum and Articles of Association of the Company. All special resolutions proposed at the extraordinary general meeting were duly passed and the change of name became effective on 20 January 2019. For further information, please refer to the circular of the Company dated 31 December 2018 and the poll results announcement dated 17 January 2019.

In addition, on 20 March 2019, the Company adopted the new English and Chinese stock short name "CHAMP ALLI INTL" and "冠均國際控股" and new Company logo, which reflects the new corporate image brought by the change of Company names. For further information, please refer to the announcement of the Company dated 15 March 2019.

Other than the above, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2018 and up to the date of this report.

AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company is to be proposed at the 2019 AGM.

On behalf of the Board
Chen Shuming
Chairman and executive Director

Hong Kong, 28 March 2019

OVERVIEW

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") on terms no less exacting than those set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, each of them confirmed that he has complied in full with the Model Code for the Year.

THE BOARD OF DIRECTORS

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

The Board comprises the following Directors:

Executive Director
Mr. Chen Shuming *(Chairman)* (appointed on 20 November 2018)
Mr. He Guangrui *(Chief Executive Officer)* (appointed on 20 November 2018)
Mr. Hu Enfeng (appointed on 10 December 2018)
Mr. Chen Xiaolong (appointed on 20 November 2018)
Mr. Zhang Shihua (appointed on 20 November 2018)
Mr. Zhan Qingtao (appointed on 20 November 2018)

Independent non-executive Directors
Mr. Chen Hua (appointed on 20 November 2018)
Mr. Zhao Zhendong (appointed on 20 November 2018)
Mr. Chan Yee Ping Michael (appointed on 20 November 2018)

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

In accordance with the provisions of the Articles, all Directors, namely, Mr. Chen Shuming, Mr. He Guangrui, Mr. Hu Enfeng, Mr. Chen Xiaolong, Mr. Zhang Shihua, Mr. Zhan Qingtao, Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chan Yee Ping Michael will retire and, being eligible, offer themselves for re-election at the 2019 AGM.

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

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

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

The Board is responsible for performing the corporate governance functions set out in provision D3.1 of the CG Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of Directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct, and (e) the Company's compliance with the CG Code disclosures requirements.

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

All newly appointed Directors will receive comprehensive, formal and tailored induction on the first occasion of their appointment so as to ensure that they have appropriate understanding of the business of the Company and the obligation and responsibility of being a director. Directors' training is an ongoing process.

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

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

Name of Directors	Attending training course(s)/ reading materials
Mr. Chen Shuming (appointed on 20 November 2018)	✓
Mr. He Guangrui (appointed on 20 November 2018)	✓
Mr. Hu Enfeng (appointed on 10 December 2018)	✓
Mr. Chen Xiaolong (appointed on 20 November 2018)	✓
Mr. Zhang Shihua (appointed on 20 November 2018)	✓
Mr. Zhan Qingtao (appointed on 20 November 2018)	✓
Mr. Chen Hua (appointed on 20 November 2018)	✓
Mr. Zhao Zhendong (appointed 20 November 2018)	✓
Mr. Chan Yee Ping Michael (appointed on 20 November 2018)	✓
Mr. Fu Mingping (resigned on 10 December 2018)	✓
Mr. Zhang Weixiang (resigned on 10 December 2018)	✓
Mr. Cheng Tai Kwan Sunny (resigned on 10 December 2018)	✓
Mr. Tan Yik Chung Wilson (resigned on 10 December 2018)	✓
Mr. Yick Ting Fei Jeffrey (resigned on 10 December 2018)	✓

BOARDING ATTENDANCE

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

During the Year, the Board convened eight Board meetings and the Company convened an annual general meeting ("2018 AGM"). The attendance records of the respective Directors are set out below:

	Attendance/Number of meetings	
	Board meetings	2018 AGM
Mr. Chen Shuming (appointed on 20 November 2018)	2/2	*
Mr. He Guangrui (appointed on 20 November 2018)	2/2	*
Mr. Hu Enfeng (appointed on 10 December 2018)	2/2	*
Mr. Chen Xiaolong (appointed on 20 November 2018)	2/2	*
Mr. Zhang Shihua (appointed on 20 November 2018)	2/2	*
Mr. Zhan Qingtao (appointed on 20 November 2018)	2/2	*
Mr. Chen Hua (appointed on 20 November 2018)	2/2	*
Mr. Zhao Zhendong (appointed 20 November 2018)	2/2	*
Mr. Chan Yee Ping Michael (appointed on 20 November 2018)	2/2	*
Mr. Fu Mingping (resigned on 10 December 2018)	6/8	1/1
Mr. Zhang Weixiang (resigned on 10 December 2018)	6/8	1/1
Mr. Cheng Tai Kwan Sunny (resigned on 10 December 2018)	6/8	1/1
Mr. Tan Yik Chung Wilson (resigned on 10 December 2018)	6/8	1/1
Mr. Yick Ting Fai Jeffrey (resigned on 10 December 2018)	6/8	1/1

* No meeting was held after their appointment during the year.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Director has entered into a service agreement with the Company for an initial fixed term of three years commencing from 20 November 2018 or 10 December 2018. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the 20 November 2018. The term of service shall be renewed and extended automatically by three years upon the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party in accordance with the terms thereto.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Provision A.2.1 of the CG Code stipulates that the roles of the chairman and the chief executive officer should be separate and not be performed by the same individual. During the Year, Mr. Chen Shuming is the chairman who is primarily responsible for the strategic planning and formulation of business strategies of the Group but he would not be involved in the day-to-day management of the Group's business. Mr. He Guangrui, the chief executive officer of the Company, is primarily responsible for the strategic planning and overall management and supervision of operations of the Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 9 to the consolidated financial statements in this report.

BOARD COMMITTEES

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

AUDIT COMMITTEE

The Company has established the Audit Committee on 3 November 2016 with written terms of reference in compliance with Rule 3.22 of the Listing Rules and provision C3.3 of the CG Code set out in Appendix 14 to the Listing Rules. The Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Yee Ping Michael (as chairman). Mr. Chen Hua and Mr. Zhao Zhendong. The primary duties of the Audit Committee are, among others, to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, oversee the financial reporting process, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by the Board.

The members of the Audit Committee should meet at least twice a year. During the Year, the Audit Committee had held two meetings, during which the Audit Committee had reviewed, inter alia, the external auditor's statutory audit scope for the Year and their independence; the consolidated financial statements of the Group for the year ended 31 December 2017 and for the six months ended 30 June 2018, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group.

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

	Number of meetings held during the Year
Mr. Chan Yee Ping Michael *(Chairman)* (appointed on 10 December 2018)	*
Mr. Chen Hua (appointed on 10 December 2018)	*
Mr. Zhao Zhendong (appointed on 10 December 2018)	*
Mr. Tan Yik Chung Wilson (resigned on 10 December 2018)	2/2
Mr. Cheng Tai Kwan Sunny (resigned on 10 December 2018)	2/2
Mr. Yick Ting Fai Jeffrey (resigned on 10 December 2018)	2/2

* No meeting was held after their appointment during the year.

REMUNERATION COMMITTEE

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

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

	Number of meetings held during the Year
Mr. Chen Hua *(Chairman)* (appointed on 10 December 2018)	*
Mr. Zhao Zhendong (appointed on 10 December 2018)	*
Mr. Chen Shuming (appointed on 10 December 2018)	*
Mr. Yick Ting Fai Jeffrey (resigned on 10 December 2018)	2/2
Mr. Cheng Tai Kwan Sunny (resigned on 10 December 2018)	2/2
Mr. Fu Mingping (resigned on 10 December 2018)	2/2

* No meeting was held after their appointment during the year.

NOMINATION COMMITTEE

The Company has established the Nomination Committee on 3 November 2016 with written terms of reference in compliance with provision A5.2 of the CG Code. The Nomination Committee consists of one executive Director, Mr. Chen Shuming (as chairman) and two independent non-executive Directors, namely Mr. Zhao Zhendong and Mr. Chan Yee Ping Michael. The primary duties of the nomination committee are, among others, to review the structure, size and composition of the Board and, make recommendations on the selection of individuals nominated for directorships and assess the independence of independent non-executive Director. A summary of the nomination policy was adopted by the Board is set out below.

Nomination Criteria

When making recommendations regarding the appointment of any proposed candidate to the Board or reappointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

(a) reputation for integrity;

(b) accomplishment, experience and reputation in the business and other relevant sectors relate to the Company and/or its subsidiaries;

(c) commitment in respect of sufficient time and attention to the Company's business;

(d) diversity in all aspects, including but not limited to gender, age, cultural/educational and professional background, skills, knowledge and experience;

(e) the ability to assist and support management and make significant contributions to the Company's success;

(f) compliance with the criteria of independence as prescribed in the Listing Rules for the appointment of an independent non-executive Director; and

(g) any other relevant factors as may be determined by the Nomination Committee from time to time.

During the Year, nine new Directors were appointed, namely, Mr. Chen Shuming, Mr. He Guangrui, Mr. Hu Enfeng, Mr. Chen Xiaolong, Mr. Zhang Shihua and Mr. Zhan Qingtao as executive Directors and Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chan Yee Ping Michael as independent non-executive Directors.

Nomination Procedures

The Company has put in place the following director nomination procedures:

Appointment of New and Replacement Directors

(i) If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

(ii) Upon compilation and interview of the list of potential candidates, the relevant Nomination Committee will shortlist candidates for consideration by the Nomination Committee/Board based on the selection criteria and such other factors that it considers appropriate. The Board has the final authority on determining suitable director candidate for appointment.

Re-election of Directors and Nomination from Shareholders

(i) Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

(ii) Any shareholder of the Company who wishes to nominate a person to stand for election as a Director at a general meeting must lodge with the Company Secretary of the Company within the lodgement period specified in the relevant shareholder circular (a) a written nomination of the candidate, (b) written confirmation from such nominated candidate of his willingness to stand for election, and (c) biographical details of such nominated candidate as required under the Listing Rules. Particulars of the candidate so proposed will be sent to all shareholders for information by a supplementary circular.

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

	Number of meetings held during the Year
Mr. Chen Shuming *(Chairman)* (appointed on 10 December 2018)	*
Mr. Zhao Zhendong (appointed on 10 December 2018)	*
Mr. Chan Yee Ping Michael (appointed on 10 December 2018)	*
Mr. Cheng Tai Kwan Sunny (resigned on 10 December 2018)	2/2
Mr. Tan Yik Chung Wilson (resigned on 10 December 2018)	2/2
Mr. Fu Mingping (resigned on 10 December 2018)	2/2

* No meeting was held after their appointment during the year.

BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of having a diversified Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage and believes that greater diversity of directors is good for corporate governance and is committed:

- To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talents.
- To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives.
- To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any.
- To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered.
- To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions.
- To ensure that changes to the Board's composition can be managed without undue disruption.

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

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. at least one-third of the members of the Board shall be independent non-executive Directors; and

2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

The Board has achieved the measurable objectives in the board diversity policy.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

EXTERNAL AUDITOR'S REMUNERATION

The Company has engaged PricewaterhouseCoopers as its external auditor for the Year until the conclusion of the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the Year, the fee paid/payable to PricewaterhouseCoopers in respect of its services relating to the audit of the consolidated financial statements of the Company and its subsidiaries for the Year was approximately RMB1.3 million.

DIVIDEND POLICY

Pursuant to the Dividend Policy adopted by the Board, the Company may declare and distribute dividends to the Shareholders, provided that the Group records a distributable profit under the laws of the Cayman Island and that the declaration and distribution of dividends does not affect the normal operations of the Group. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia: (i) the general financial condition of the Group; (ii) capital and debt level of the Group; (iii) future cash requirements and availability for business operations, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group's lenders; (v) the general market conditions; and (vi) any other factors that the Board deems appropriate. The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company. Any final dividend for a financial year will be subject to shareholders' approval. The Dividend Policy will continue to be reviewed from time to time and there can be no assurance that a dividend will be proposed or declared in any specific periods.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the risk management and internal control of the Group and for reviewing their effectiveness in order to safeguard the Shareholders' investment and the Group's assets. Appropriate policies and procedures have been designed to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations.

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

The principal risks and uncertainties for the Group can be found in the section entitled "Management Discussion and Analysis" and note 3 to the consolidated financial statements in this report.

COMPANY SECRETARY

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

Mr. Lau has been informed of the requirement of the Rules 3.28 and 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the Year.

ALTERATIONS TO THE CONSTITUTIONAL DOCUMENTS

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

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

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

Participation at General Meetings

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). The 2018 AGM was held on 25 May 2018. The 2019 AGM is scheduled to be held on 27 May 2019. A circular containing among other things, further information relating to the 2019 AGM will be dispatched to the shareholders in accordance with the Articles and the Listing Rules.

Right to Put Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Convening of EGM and Putting Forward Proposals at General Meetings

In accordance with the article 64 of the Articles, the Board may whenever it thinks fit convene extraordinary general meetings. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Nomination of Director

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

REPORTING SCOPE, MATERIALITY AND PERIOD

This Environmental, Social and Governance ("ESG") report ("ESG Report") is prepared by the Company. This ESG Report is published in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Listing Rules and the "comply or explain" provisions contained therein.

Reporting Principle and Scope

The content of this ESG Report focuses on material sustainability areas, based on our most significant economic, environmental and social impacts, as well as the areas that are of the greatest interest or concern to stakeholders.

As identified by the materiality assessment, the ESG Report covers the overall performance, risks, strategies, measures and commitments of the Group in four areas, namely, working environment quality, environmental protection, operating practices and community investment, for the Group's principal business operations of manufacture of metallised packaging paper for cigarette package manufacturers in the PRC during the reporting period for the year ended 31 December 2018 ("Reporting Period"). Two main lines of our products are transfer metallised paper and laminated metallised paper.

All the information contained herein, including data and information of the Group's headquarters and its self-owned production facility in Yichang City, Hubei Province and Hong Kong office, comes from official documents or statistical reports of the Group. This report has been reviewed and approved by the Board of Directors.

Regarding the corporate governance structure of the Group and other relevant information, please refer to the Corporate Governance Report in the Company's annual report dated 28 March 2019.

Materiality Assessment

This ESG Report was prepared by the management and employees of the Group as it is to review the Group's internal practices on environmental, social and operating practices, and governance. Hence, we have evaluated relevant issues which are significant to our stakeholders, and address them in the ESG Report.

Stakeholders' Feedback

We understand that stakeholder engagement plays a pivotal role to our continuous effort in improving our ESG standard. Therefore, we have built and maintained for our shareholders, customers, employees, suppliers, other stakeholders and all interested parties various communication channels. We also endeavour to provide our stakeholders with clear information about our approaches to business operation and ESG issues. These include, but are not limit to, statutory announcements, circulars, financial reports, shareholders' meetings, corporate websites and electronic correspondence.

We welcome opinions on the Group's approaches on the ESG aspects upon reading the ESG Report. Please share with us via:

Postal address: Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong
Tel No.: (852) 2327 8009
Fax No.: (852) 2327 8090

REPORTING ON ENVIRONMENTAL ASPECTS

The Group noticed that the PRC government and clients had shown stronger awareness on environmental protection. In order to meet the requirements of the PRC government and clients and establish positive corporate image, the Group has formulated environmental protection policies and guidelines to enhance our environmental protection management, including forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of environmental protection policies and guidelines.

In 2018, the Group formed a Safety and Environmental Protection Department, which is responsible for reinforcing the Group's environmental control, designing relevant system and providing environmental training for employees. The Group's environmental policies are made in accordance with the ISO 14001:2015 Standard.

During the Reporting Period, there was no incident of non-compliance with relevant environmental laws and regulations relating to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste that have a significant impact on the Group. The Group also confirmed that during the Reporting Period, our business operation had not encountered any punishment by respective governmental authorities due to violation of the above laws and regulations.

Emission

During the Reporting Period, the Group has complied with all relevant laws and regulations that have significant impacts on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. These laws and regulations include, but not limited to, the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》).

We have obtained the pollutant discharge permit during the Reporting Period, which allows us to discharge industrial waste water and sewage to water legally when conducting production activities. Wastewater produced during operation is mainly domestic sewage, which is treated through grease trap and septic tank prior to being discharged to municipal wastewater system and being processed in wastewater treatment facilities. During the manufacturing procedures, a small amount of wastewater is produced after the cleaning of equipment. The wastewater is treated in our wastewater treatment facilities before discharge. All these procedures meet the requirements stipulated by relevant national laws and regulations. In addition, in order to protect the biodiversity and ecosystem, we have bespoke guidance on handling of hazardous and non-hazardous wastes arising from our manufacturing processes, which include proper disposal of waste and sewage treatment.

We classify solid waste by types. Reusable waste, such as paper, will be reused in our office. Other waste papers and scrap metal were collected and handled by third-party qualified organisation. Regarding office waste, apart from dumping waste at the designated place in line with the requirements of the property management office of the office premises, we also categorise the waste and engage a contractor to collect toner cartridge and large water bottles for recycle purpose. Meanwhile, we regularly monitor the level of consumption of paper, toner cartridges and ink cartridges. Hazardous waste, such as industrial waste, is placed in designated area, with the total volume recorded in a detailed manner, prior to collected and disposed of by professional institutions authorised by relevant government departments.

Emission Data

Emissions	**Unit**	**Quantity**
Greenhouse gas		
— Scope 1 — direct emission		
(i) fuel consumption	CO2 equivalents	Not applicable
— Scope 2 — indirect emission	CO2 equivalents	
(i) electricity consumption	CO2 equivalents	4,682.379
— Scope 3 — other indirect emission	CO2 equivalents	
(i) paper consumption	CO2 equivalents	0.98784
(ii) water consumption	CO2 equivalents	13.6
Exhaust gas		
— Nitrogen Oxide (NOx)	gram	Not applicable
— Sulfur Oxide (SOx)	gram	Not applicable
— Particulate matter (PM)	gram	Not applicable
Wastewater	tonnes	13,600
Hazardous wastes	tonnes	52
Non-hazardous wastes	tonnes	21

Summary of KPI disclosure of Aspect A1 under the ESG Reporting Guide:

KPI A1.1	The types of emissions and respective emissions data (if applicable) are set forth above.
KPI A1.2	Emissions of indirect greenhouse gases are set forth above. Emission of greenhouse gases from daily operation did not exceed the maximum level stipulated by relevant laws.
KPI A1.3	Total volume of hazardous waste is set forth above.
KPI A1.4	Total volume of non-hazardous waste is set forth above.
KPI A1.5	Measures to mitigate emissions can be referred to in the above paragraphs.
KPI A1.6	Description of how non-hazardous wastes are handled, reduction initiatives can be referred to in the Hazardous and non-hazardous waste management.

Use of Resources

Regarding use of resources and natural resources, we implement various measures to reduce wastage and consumption levels in our headquarters' production facility and offices. We focus on enhancing efficiency, through upgrading machines or adopting advanced technologies in production, to minimise emissions (such as waste gas and waste water) and use of resources and natural resources (including electrical power, water, cardboard, metallised film and other raw materials). These measures include:

Energy and water conservation

- Maintain suitable indoor temperature
- Switch off all idling electrical appliances, lights and office equipment
- Encourage water conservation
- Use energy-saving electrical appliances such as those with "Grade 1" energy label
- Utilise day-time natural lighting in offices whenever possible
- Install LED or other lighting systems with better energy efficiency

Water that we consume is mainly tap water. The Group considers water resources to be valuable and we are committed to promoting the concept of water conservation. We call on our factory workers from time to time to enhance water efficiency. In offices, we put up signs to remind staff to conserve water.

Waste reduction

- Promote electronic mailing and electronic filing system
- Encourage reuse and recycling of paper and other stationery
- Avoid using disposable tableware
- Recycle ink cartridges, copier toner containers

Meanwhile, we continuously review our environmental practices and take improving measures when necessary.

Resource Consumption Data

Resources Consumed	**Unit**	**Quantity**
Water	tonnes	24,000
Electricity	kWh	5,073,000
Paper	tonnes	0.336
Toner	tonnes	16
Packaging materials (plastic)	tonnes	12.782
Packaging materials (corrugates)	tonnes	3.7

Summary of KPI disclosure of Aspect A2 under the ESG Reporting Guide:

KPI A2.1	Details of electricity consumption are set forth above.
KPI A2.2	Details of water consumption are set forth above.
KPI A2.3	Description of energy use efficiency initiatives can be referred to in the above paragraphs.
KPI A2.4	There is no issue in sourcing water that is fit for purpose whereas the Group considers its water consumption level is reasonable. Description of water use efficiency initiatives can be referred to in the above paragraphs.
KPI A2.5	Details of consumption of packaging materials are set forth above.

Environment and Natural Resources

Environmental-friendly products

The PRC government encourages the procurement of transfer metallised papers in cigarette packaging as one of the initiatives regarding environmental protection. It is because transfer metallised papers are more environmentally friendly than laminated metallised papers as the plastic transparent layer of the metallised film for transfer metallised paper can be removed after lamination and is therefore recyclable. We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper.

Our product research and development team has extensive experience in metallised packaging paper production and it is committed to improving technology to meet the environmental standards. Moreover, we have developed proprietary technologies for producing high-end environmentally friendly metallised cigarette packaging paper with enhanced anti-counterfeiting features primarily for the external packaging needs for mid to high-end cigarette brands. We will make significant investments in further improving our research and development capabilities, in order to contribute to the environmental development of the industry.

Raising awareness

In addition, we believe that it is critical that our employees share the same values to protect our environment. Hence, we have stepped up our efforts in promoting environmental awareness among our employees. We often put up various notices to remind them of our environmental protection measures and provide updates and information about environmental issues and the Group's latest environmental initiatives. We have also codified and drawn up a set of safety and environmental protection manual for employees to heighten their awareness, and arranges relevant training and emergency drill regularly.

During the Reporting Period, we had not received any notice or warning in relation to pollution in respect of our production, nor had we been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any material breach of environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no ongoing or pending action by any PRC environmental government agencies in respect thereof.

Summary of KPI disclosure of Aspect A3 under the ESG Reporting Guide:

KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them can be referred to in the above paragraphs.

REPORTING ON SOCIAL ASPECTS

Employment and Labour Practices

Employment

Employment Data

	Unit	Quantity
Total employees	No. of people	152
By gender		
— male	percentage	67.9
— female		32.1
By employment type		
— permanent	percentage	62.9
— full-time contracted		37.1
— temporary/part-time		0
By rank		
— executives	percentage	16.4
— others		83.6
By age		
— below 30	percentage	12.1
— 30-39		40.0
— 40-49		31.4
— 50-59		14.3
— above 60		2.2
Average service tenure		
— executives (male)	No. of years	13.1
— executives (female)		10.6
— others (male)		7.4
— others (female)		8.1
New employees		
— male	No. of people	21
— female		2
Employee turnover		
— male	No. of people	26
— female		3

Recruitment and remuneration policies

The Group endeavours to provide a fair, safe and respectful workplace environment for our staff. The Group has formulated and strictly implemented a set of comprehensive human resources management system, which is in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (《僱傭條例》), the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) and other prevailing laws and regulations.

The Group determines employee remuneration and welfare package according to job nature, qualifications and performance as well as market conditions, with reference to his/her performance appraisal. We also encourage internal promotion to provide fair and sufficient opportunities for promotion and salary increment as the recognition and reward of the employee's performance.

The Group also pays social insurance and housing provident fund for its staff and provides commercial insurance and supplemental medical benefit, as well as offers employees with annual leave and determines working hours in accordance with the applicable laws and industrial practice of the region.

Equal opportunity and diversity

We embrace diversity and inclusion. Given our business nature, we have no specific requirements or conventions on gender, age and race in employment. The Group ensures that no relevant requirements are set for recruitment and staff promotion and is dedicated to maintaining a healthy gender balance. The Group also ensures that all employees share equal opportunities and no employee will suffer from any discrimination or be deprived of any treatment due to gender, age, race, disability, marital and family status, sexual orientation or any other reasons. If employees suffers from discrimination or mistreatment at work, the Group will pursue internal investigation and take rectifying measures.

Dismissal policy

In situations where an employee violates the Group's regulations or consistently performs his or her duties below an acceptable level, our human resources department will follow a series of procedures to terminate his or her employment contract. Terms and conditions relating to dismissal are enumerated in employment contract and other employment policy manual and would be done according to the relevant labour laws and regulations.

Staff communication

We care for our employees and believe that harmonious employment relationship is conducive to the stable development of the Company. We do our best to maintain open dialogue with them to have a better understanding of and track progress against their career goals. Staff is required to participate in the annual performance appraisal, thereby building a platform for employees to be clear about how they intend to achieve the career objectives and how their performance should be recognised.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

Health and Safety

The Group attaches high importance on occupational health and safety. We are subject to the PRC Labour Law and other relevant laws, administrative regulations, national standards and industrial standards which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees. Our equipment and machineries are also maintained regularly to ensure that they are safe to be operated. We also implement safety measures at our production facilities to ensure compliance with applicable regulatory requirements and to minimise the risk of injury of our employees.

Physical and mental health

Besides daily work safety, the Group also recognises the significance of both physical and mental health. Therefore, the Group encourages its employees to maintain a work-life balance, and organises gathering and sports events and other outdoor activities, so as to help relieve their work pressure.

During the Reporting Period, we had not experienced any material or prolonged stoppages of production due to equipment failure and we had not experienced any severe accidents during our production process. We have also complied with all relevant laws and regulations that have significant impacts on the Group relating to the provision of a safe working environment and the protection of our employees from occupational hazards.

Development and Training

Training statistics

	Unit	**Quantity**
Participating employees	No. of people	128
Participating employees as % of total employees	percentage	91.4
By gender		
— male	Total hours	4,128
— female		1,890
By gender		
— male	Average hours per employee	54.0
— female		45.0
By rank		
— executives	Total hours	216
— others		5,800
By rank		
— executives	Average hours per employee	12.0
— others		52.7

We support our employees to develop their potentials and enhance their capabilities, which in turn make contribution to the Group. We require new employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures. Considering the individual needs of the employees' personal career development and the business needs of the Group, we arrange different scopes of training for employees, including expertise and skills related to business and regulations in order to improve their quality. We provide induction training and on-going technical training to the production staff on, amongst other areas, safe operation and maintenance of equipment and machinery. Moreover, we provide training to our production staff from time to time in order to update them on production techniques and the latest technology. Through continuous development and adequate internal and external trainings, we expect the Group to keep abreast of the latest development and grow together with our employees.

Labour Standard

The Group is in strict compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong and Regulations on Labour Security Supervision issued by the State Council of the PRC, and takes reference to international labour standards in formulating internal guidance and labour system. All recruitment procedures and promotions are strictly supervised by the Group's human resources management system. During recruitment process, our human resources department checks and verifies the identity of all candidates to prevent child labour.

All employment contracts and staff rules have clearly defined the standards of employees' code of conduct, strictly monitoring all employees (including directors and all levels of staff) and eradicate all violations. Job duties of different employees and their rights are clearly described in employee manual and employment contracts. Employees are encouraged to speak out if they are exploited or forced to work against their will and job duties. We will make every effort to protect them. The Group will conduct investigations, punishment or dismissal of relevant employees immediately when any illegal behaviour is being discovered. If necessary, the Group will further improve the labour mechanism against illegal behaviours.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to child and forced labour.

Operating Practices

Supply Chain Management

The Group had 104 suppliers as at 31 December 2018 and they are mainly located in China.

The Group has years of experience in cigarette package manufacturing industry and has already established a good reputation within the industry. While we have not entered into any long-term supply contracts with our suppliers, we maintain stable and long-term relationship with our major suppliers. Our key suppliers are large paper and metallised film manufacturers, mainly providing raw materials of cigarette packaging paper including white cardboard and metallised film which are composed of aluminum foil, polyethylene terephthalate (PET) and biaxially oriented polypropylene (BOPP). Most of our key suppliers are from the PRC. Working with them helps keeping our transportation costs low and enabling us to keep abreast of local market development which facilitate us to produce products that cater to customers' needs.

We choose suppliers based on their business records, products and services quality, cost, after-sale services and transportation and other factors. We periodically invite suppliers to provide us samples for pre-assessment and our procurement department maintains a list of qualified suppliers which have passed our internal assessment as potential suppliers for future purchases.

For the purpose of selecting a supplier for procurement of raw materials, we typically invite our pre-assessed suppliers to participate in a fair, just and open tendering procedure and we assess the tenders based on their quality, price and our purchasing history. Once a supplier is selected after the close of a tender, we typically enter into a fair and reasonable supply contract with the supplier to avoid any exploitation before placing orders to procure the raw materials we require. In addition, provisions for environmental protection are incorporated into certain contracts, requesting contractors and/or suppliers to strictly observe the requirements of environmental protection. In addition to assessing our suppliers on environmental performances, we also closely monitor the quality, cost, service and delivery of their products, as well as their commitments to high moral standards, when performing their contractual obligations. In case our suppliers fail to comply with any applicable laws and regulations or are unable to fulfill their contractual obligations, we will replace them and take legal actions for any related losses when necessary.

Product Responsibility

Quality first

To ensure high quality standards and maintain our good reputation within the industry, we implement stringent quality control management. Our production department is responsible for conducting the management, examination and maintenance of our production equipment from time to time in order to ensure their proper functioning and safe operation, thus enhancing our productivity and product quality. We have a set of internal guidelines on the maintenance of equipment observed by the production department and carry out periodic inspection and maintenance of our machinery and equipment.

Our production department has a set of internal manuals on standards for testing product quality and these quality control standards are implemented at each stage of the production process. Our production staff is required to record the conditions of the work in progress. The production department also works closely with the quality control department throughout the production process to ensure each production process is carried out in accordance with the quality standard. Before we deliver our final products to customers, our quality control department conducts quality assessment on each batch of final products to check that the products have been produced in accordance with the applicable standards and approved production processes. Only those final products that have fulfilled all testing requirements are delivered to our customers.

We maintain an effective quality control system covering all the major production processes, from procurement of raw materials, operation of machineries, to proper use of materials and packaging, in order to prevent product defects and excessive chemicals remained in our products and excessive emission of Volatile Organic Compounds (VOC).

During the Reporting Period, there was no material complaints or damage claim on our product quality from our customers.

Understanding customers' needs

We place great emphasis on the satisfaction of our clients. Their opinion is the strongest motivation for our continuous improvement. We are eager to understand the needs of our clients through their feedbacks and accordingly adopt appropriate measures to further improve our services. We have adopted a unified sales return policy which applies to all of our products and all customers. After receiving our products and prior to giving its final confirmation of acceptance, our customers may request us to reprocess any products which fail to meet their required product specifications. On the other hand, request for product return after a customer's final confirmation of acceptance will only be accepted if there is any product quality issue and upon re-examination of the alleged defective product by our production department, quality control department and sales department.

Safeguarding privacy and intellectual property

We fully understand the importance of intellectual property rights. Our core production technology and critical production processes are crucial to our continued success and development. Any infringement of our intellectual rights may seriously affect our business and reputation. Therefore, we aspire to protect our patents, brand, trademark and other intellectual property rights and eradicate all infringement of our intellectual property rights. We also ensure that our business operation processes are in compliance with the Trademark Law of the PRC (《中華人民共和國商標法》), the Implementation Rules of the PRC Patent Law (《中華人民共和國商標法實施條例》) and other relevant laws, administrative regulations, national standards and industrial standards.

We have a privacy policy, pursuant to which all personal and corporate data must be collected in compliance with all relevant privacy laws. We requested our staff to protect our customers' privacy and handle all commercially sensitive or confidential information in strict confidence.

Advertising and labelling

To attract clients, we carry out marketing and promotional works in an appropriate manner. We have been in compliance with all applicable laws and standards enacted by the government and industry associations. We ensure that consumers are provided with sufficient and accurate information on our services to make informed choices.

During the Reporting Period, the Group has complied with all relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters.

Anti-corruption, extortion, fraud and money-laundering

The Group always adheres to the principle of "integrity, corruption-free" and we have formulated a set of comprehensive anti-corruption and fraudulent mechanism pinpointing the whole supply chain from upstream suppliers to downstream end-customers, thereby ensuring that our directors and every employee clearly understand our strong stance of "zero-tolerance" against any corruption, fraudulence, extortion, money laundering and bribes, and be in compliance with domestic rules and have good professional conduct. The Group has clear and bespoke anti-corruption measures on areas from recruitment and promotion, procurement and sale, as well as internal audit. Such measures include, but not limited to, verification of the identity and relationship of employees to avoid hiring people who have close relationships with the Group's employees and management with unreasonable clauses; thorough inspection of clients' capital source to prevent money-laundering; stringent monitoring of procurement process to prohibit staff from taking benefits for facilitating the clients to obtain procurement contracts in a dishonest manner. In addition to setting up audit committee, nomination committee and remuneration committee as required by the Listing Rules, the Group also engage external compliance and legal advisors and auditor to ensure that there is no misleading or fraud in the Company's results announcement and other disclosure.

In addition, the Group provides periodic anti-corruption training and information to employees and encourages them to report non-compliance incidents. The Group will immediately conduct investigations, punishment or dismissal of relevant employees when any illegal behaviour is being discovered.

Whistle-blowing policy

We also have a "whistle-blowing" policy pursuant to which our employees can report any wrongdoing and misconduct anonymously. We undertake to safeguard their identity. If necessary, the Group will further improve the mechanism to safeguard against illegal behaviour.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, extortion, fraud and money laundering.

Community

Community Investment

The Group values corporate social responsibility and actively explores options in coordinating charitable activities and collaborating with other organisations in different areas, such as education, culture, poverty relief, and so on. We aim to demonstrate positive influence of corporate values by raising employees' awareness of caring for the community and mutual help.

During the Reporting Period, the Group actively communicated with different institutions in the community where it located, understands their situation, organises and participates in various community activities. We will take their view into consideration when planning for our business operations. We hope to build the corporate culture of "lending a helping hand" through setting up an example by ourselves. We also encourage our staff to actively participate in community activities and promote the relationship between our employees and community.

ESG REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas	Content	Section in This ESG Report
A. Environmental Aspect		
A1 Emissions		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environment — Emissions
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environment — Use of Resources
A3 Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment — Environment and Natural Resources
B. Social Aspect		
Employment and Labour Practices		
B1 Employment		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices — Recruitment, Remuneration and Dismissal Policies; Equal Opportunities, Diversity and Inclusion
B2 Health and Safety		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices — Health and Safety
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment and Labour Practices — Development and Training
B4 Labour Standard		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Labour Practices — Labour Standards

Subject Areas	Content	Section in This ESG Report
Operating Practices		
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Operating Practices — Supply Chain Management
B6 Product Responsibility		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices — Product Responsibility
B7 Anti-corruption		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Operating Practices — Anti-corruption
Community		
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community — Community Investment

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. CHEN Shuming, aged 54, is the chairman and executive Director of the Company. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Chen has over 25 years of experience in the paper manufacturing industry. Mr. Chen completed an amateur college course in agriculture economic management (業餘大專班農業經濟管理專業) from the China Communist Party Shandong Provincial Committee Party School* (中共山東省委黨校) in December 1997 and obtained the Credentials of Senior Operating Manager (高級經營師) certified by the National Credentials Committee of Senior Operating Manager (全國高級經營師評審委員會) in August 2006. From July 1984 to May 1992, he worked at the Dongping County Foreign Trade Corporation* (東平縣外貿總公司). From May 1992 to October 2000, he was the general manager of Shandong Province Dongping County Mingxing Paper Manufacturing Limited* (山東省東平縣明興紙業有限責任公司). Since October 2000, he has been acting as the chairman of the board of directors of Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司)), a company engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Chen has been a vice commissioner (副主任委員) of the China Paper Manufacturing Association, Household Paper Professional Committee* (中國造紙協會生活用紙專業委員會) since 2015 and the vice president of the Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會) since 2016. Mr. Chen was also a committee member of the 9th, 10th and 11th Shandong Province Committee of the PRC Political Consultative Conference* (中國人民政治協商會議山東省政協委員) and has been appointed as the economic consultant of the Dongping County government (東平縣人民政府) since February 2018.

As at the date of this report, Mr. Chen is the beneficial owner of 100% of the issued share capital of Champion Alliance International Corporation, which in turn holds 350,000,000 Shares representing approximately 70% of the issued share capital of the Company.

EXECUTIVE DIRECTOR

Mr. HE Guangrui, aged 39, is an executive Director and the chief executive officer of the Group. He has approximately 10 years of experience in corporate finance matters. He was appointed as the president of Shenzhen Qiaoxing Investment Co., Ltd.* (深圳市喬興投資有限公司) (formerly known as Shenzhen Fuan Investment Co., Limited* (深圳市富一投資有限公司)) in April 2017. He also acted as the president of Hao Hua Tai Cheng (Beijing) Capital Management Limited* (浩華泰成(北京)資本管理公司) from March 2014 to May 2016. Mr. He also served as the president of Zhongsen Weiye Asset Management Company* (中森偉業資產管理公司) between March 2013 and March 2014 and general manager of Beijing Golden Court Investment Consulting Co., Ltd.* (北京黃金閣投資諮詢有限公司) between December 2007 and January 2012. Mr. He also served as the executive director of Prosper One International Holdings Company Limited (formerly known as Tic Tac International Holdings Company Limited) (stock code: 1470), a company whose shares are listed on the Main Board of the Stock Exchange, from September 2017 to March 2018.

As at the date of this report, Mr. He is the beneficial owner of 100% of the issued share capital of Million Success Group Corporation, which in turn holds 25,000,000 Shares representing approximately 5% of the issued share capital of the Company.

Mr. HU Enfeng, aged 55, is an executive Director and the chief financial officer of the Group. He obtained a certificate as an auditor conferred by the Audit Bureau of the PRC (中華人民共和國審計署) in November 1992 and further obtained the qualification as a senior accountant certified by Hubei Province Township Professional Technical Senior Position Review Committee* (湖北省鄉鎮企業專業技術高級職務評審委員會) in April 2002. He also obtained a certificate of a top-up degree (專升本科) course in accounting from Northeast Normal University (東北師範大學) through professional online education in July 2017.

From July 1988 to October 2002, Mr. Hu successively worked as the auditor (審計員), vice manager (副所長) and manager (所長) at Hubei Henganxin Accounting Company Limited* (湖北恒安信會計師事務有限公司) (formerly known as Ying City Audit Firm* (應城市審計事務所)). From November 2002 to August 2004, he worked at Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司)) (''Shangdong Jiexin''), a company engages in the manufacturing of household papers and personal hygiene products in the PRC, and took up various roles, including the financial manager (財務部經理) and the assistant to the chairman of the board (董事長助理). From August 2004 to August 2015, he had been working at Guangdong Jovo Energy Group Co., Ltd. (廣東九豐能源集團有限公司) with the last position held as the vice president (副總裁) and the general manager (總經理) of the liquefied natural gas (''LNG'') department. From August 2015 to December 2017, he was the president (總裁) in the area of LNG in the PRC of a group company, namely Pacific Oil & Gas Company Limited* (太平洋油氣有限公司). Since March 2018, he has been acting as the assistant to the chairman of the board (董事長助理) in Shandong Jiexin.

Mr. CHEN Xiaolong, aged 32, is an executive Director and the chief operating officer of the Group. He is the son of Mr. Chen Shuming. Mr. Chen Xiaolong has over 6 years of experience in the paper manufacturing industry. He graduated from the University of Northumbria at Newcastle, the United Kingdom, and was awarded a bachelor's degree of science in sport management in June 2012.

Since July 2012, Mr. Chen Xiaolong has been working as the chief operating officer (經營總裁) at Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司)), a company engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Chen Xiaolong has been serving as the vice president of Shandong Private Entrepreneurs Association* (山東省民營企業家協會) since 2017 and has also been a member of the Society of Entrepreneurs & Ecology (阿拉善SEE生態協會) for a term of one year since December 2017. He is currently a committee member of the 13th Taian City Committee of the PRC Political Consultative Conference* (中國人民政治協商會議泰安市政協委員).

Mr. ZHANG Shihua, aged 34, is an executive Director and the chief information officer of the Group. He has approximately 13 years of experience in the paper manufacturing industry. He obtained his qualification as a secretary to the board of directors (董事會秘書資格證書) conferred by the Shenzhen Stock Exchange in March 2014. He obtained his bachelor's degree in law at Liaocheng University (聊城大學) in December2016.

From September 2003 to September 2005, Mr. Zhang worked in the legal industry at Shangdong Gongyun Law Offices (山東公允律師事務所). Since October 2005, he has been working as the vice president (副總裁) in Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司)), a company engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Zhang was admitted as a member of the China Law Society (中國法學會) in 2015 and was also a committee member of the 9th Dongping County Committee of the PRC Political Consultative Conference* (中國人民政治協商會議東平縣委員會). He was also awarded as a Working Role Model* (勞動模範) by the Dongping County government (東平縣人民政府) in April 2017.

Mr. ZHAN Qingtao, aged 45, is an executive Director. He has approximately 14 years of financial management experience in the paper manufacturing industry. Mr. Zhan completed a two year program in accounting at Shangdong Province Transport Labour Mid-Level Professional School* (山東省交通職工中等專業學校) in July 1993. He also obtained a mid-level qualification certificate of specialty and technology （專業技術資格證書）in accounting conferred by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2005.

Since November 2004, Mr. Zhan has been working as the vice chief financial officer (財務副總) in Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司)), a company engages in the manufacturing of household papers and personal hygiene products in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHEN Hua, aged 51, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. He has more than 29 years of experience in the field of economics and finance. He graduated from Southwestern University of Finance and Economics (西南財經大學), the PRC, and was awarded a bachelor's degree in economics (major in statistics) in July 1989. Between July 1989 and September 2002, Mr. Chen Hua served various roles, including deputy chief of the sub-branch and department manager of the branch, of the Industrial and Commercial Bank of China. He obtained a master's degree in science from Shandong University (山東大學), the PRC, in December 2001 and a doctorate degree in economics from Soochow University (蘇州大學), the PRC, in June 2005. He was the professor and the head of the regional competitiveness assessment center (區域競爭力評價中心) of the Shandong Economics University* (山東經濟學院) from March 2005 to July 2007 and the vice president of the taxation and finance institute of Shandong Economics University* (山東經濟學院財稅金融研究所) from July 2007 to July 2009. From September 2010 to April 2013, he was an applied economics postdoctoral researcher at the Fiscal Science Research Institute of the Ministry of Finance of the PRC* (中華人民共和國財政部財政科學研究所). Since November 2014, he has been the head of the finance research institute of Shandong University of Finance and Economics* (山東財經大學當代金融研究所).

Mr. Chen served as a committee member of the 11th Shandong Province Committee of the PRC Political Consultative Conference* (中國人民政治協商會議山東省政協委員) and was appointed as a budgetary review consultant* (預算審查顧問) by the Shandong Province Standing Committee of National People's Congress (山東省人大常委會) in September 2018.

Mr. Chen has been an independent non-executive director of Bank of Qingdao Co., Ltd. (H Shares Stock Code: 3866 and Preference Shares Stock Code: 4611), whose shares are listed on the Main Board of the Stock Exchange, since April 2015.

Mr. ZHAO Zhendong, aged 55, is an independent non-executive Director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee. He has over 34 years of experience in the paper manufacturing industry. Mr. Zhao completed a two-year paper manufacturing program at Shandong Province Light Industry School* (山東省輕工業學校) in July 1984. He obtained a diploma in chemistry from Shandong Normal University (山東師範大學) in July 1990 and an undergraduate diploma in economics from China Communist Party Central Party School Correspondence College* (中共中央黨校函授學院) in December 1993. Mr. Zhao also obtained the qualification as a senior engineer conferred by Shandong Province Light Industry Technical Position Senior Review Committee* (山東省輕工工程技術職務高級評審委員會) in May 2003.

Between July 1984 and December 1997, Mr. Zhao worked as a technician and an assistant engineer at Shandong Paper Group Head Office* (山東紙業集團總公司). From January 1998 to April 2005, he served as the engineer, senior engineer and deputy secretary general of Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會). Since April 2005, he has been serving as the secretary general and vice president of Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會) and also a senior engineer and an executive council member (常務理事) of Shandong Papermaking Society* (山東造紙學會).

Mr. CHAN Yee Ping Michael, aged 42, is an independent non-executive Director , the chairman of the Audit Committee and a member of the Nomination Committee. He has more than 19 years of experience in the areas of audit, financial management, corporate secretarial management and corporate governance. He obtained his bachelor's degree in accountancy from The Hong Kong Polytechnic University in December 1999. He was admitted as a certified public accountant and a fellow of the Hong Kong Institute of Certified Public Accountants in October 2003 and July 2017 respectively, and a fellow of the Association of Chartered Certified Accountants in June 2009.

Mr. Chan has been the company secretary of China Sunshine Paper Holdings Company Limited (stock code: 2002) which is listed on the Main Board of the Stock Exchange since September 2013 and Northeast Electric Development Co., Limited (stock code: 42), a joint stock limited company listed on the Shenzhen Stock Exchange and the Main Board of the Stock Exchange, since August 2012.

Mr. Chan has been also appointed as an independent non-executive director of the following companies which are listed on the Main Board or GEM (as the case may be) of the Stock Exchange, namely China Wah Yan Healthcare Limited (stock code: 648) since July 2014, China Sandi Holdings Limited (stock code: 910) since July 2014 and New Wisdom Holding Company Limited (stock code: 8213) since November 2016.

COMPANY SECRETARY

Mr. LAU Ka Ming, aged 36, has been the company secretary of the Company since February 2016. He is responsible for accounting and financial matters as well as company secretarial matters of the Group.

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

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

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Champion Alliance International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 115, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

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

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

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Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

Key audit matter identified in our audit is related to recoverability of trade receivables.

Key Audit Matter: Recoverability of Trade Receivables	How our audit addressed the Key Audit Matter
Refer to Note 4(a) (critical accounting estimates and judgements) and Note 19 to the consolidated financial statements. As at 31 December 2018, the net book value of trade receivables amounted to RMB119,851,000 (after the provision of RMB1,790,000), which approximated 41% of the Group's total assets. We focused on this area because management made subjective judgements over assessing the credit standing of the Group's customers, the timing of recognition of impairment of trade receivables and the estimation of the size of any such impairment. At each period end, management individually evaluated the lifetime expected credit losses to be incurred on all the customers. These evaluations focused on the customer's current ability to pay and settlement history, and took into account information specific to the customer as well as pertaining to the economic environment in which the customer operated. For receivables which individually assessed as not impaired, management collectively assessed the possibility of impairment taking into account of the ageing analysis and the history of bad debt losses incurred in respect of those groups of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers and debtors to settle the receivables.	With respect to management's individual credit evaluations for the Group's customers, we evaluated and tested the key controls over credit risk management. These key controls were related to the assessment of credit standing of each of new customers as well as bi-annually assessment of each of existing customers, identification of customers with credit risks, estimation of the recoverable amount of impaired debts and the resulting impairment provisions. We determined that we could rely on these controls for the purposes of our audit. We obtained a breakdown of each individual customer recoverability assessment from management and formed our own judgement, especially on those past due debtors, as to whether that was appropriate based on the external evidence obtained from our independent research on publicly available information, our examination of the customers' payment records during the current year and subsequent to the year end, as well as the past credit histories in respect of the relevant counterparties. We found no material exceptions in these tests. In respect of receivables individually assessed but not impaired, we challenged the underlying information referenced by the management through validation of the receivables ageing report and comparison of the history of bad debt losses incurred. We also evaluated whether the historical loss rates were appropriately adjusted based on current and forward-looking information. Based on our audit procedures, we were satisfied that management's assessments were reasonable and consistent with the evidence that we obtained.

Other Information

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

(Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Chiu Yin, Ivan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**217,491**	238,310
Costs of sales	8	**(184,542)**	(193,363)
Gross profit		**32,949**	44,947
Other income and other losses — net	7	**698**	5,924
Distribution expenses	8	**(14,244)**	(17,987)
Administrative expenses	8	**(24,105)**	(24,880)
Net impairment losses on financial assets	3.1.2(b)	**(744)**	(1,046)
Operating (loss)/profit		**(5,446)**	6,958
Finance income		**505**	543
Finance expenses		**(975)**	(1,092)
Finance expenses — net	10	**(470)**	(549)
(Loss)/profit before income tax		**(5,916)**	6,409
Income tax credit/(expense)	12	**1,292**	(1,685)
(Loss)/profit for the year		**(4,624)**	4,724
Other comprehensive income		**–**	–
Total comprehensive income for the year		**(4,624)**	4,724
Attributable to:			
Equity holders of the Company		**(4,624)**	4,724
(Losses)/earnings per share (expressed in RMB per share)			
— Basic and diluted	13	**(0.92) cents**	0.94 cents

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

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Prepaid operating lease	*15*	**11,767**	12,104
Property, plant and equipment	*16(a)*	**33,921**	37,290
Intangible assets		**63**	108
Deferred income tax assets	*17*	**1,703**	485
		47,454	49,987
Current assets			
Inventories	*18*	**73,892**	63,232
Trade and other receivables and prepayments	*19*	**122,533**	147,853
Notes receivables	*19*	**5,000**	3,499
Amounts due from a related party		**–**	1,511
Restricted cash	*20*	**38,120**	38,719
Cash and cash equivalents	*21*	**5,912**	14,776
Other current assets		**278**	–
		245,735	269,590
Total assets		**293,189**	319,577
EQUITIES AND LIABILITIES			
Equity			
Share capital	*22*	**4,459**	4,459
Other reserves	*23*	**101,892**	101,392
Retained earnings		**6,199**	10,823
Total equity		**112,550**	116,674

	Note	As at 31 December **2018** ***RMB'000***	2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Deferred government grants	*16(b)*	**1,090**	1,236
Current liabilities			
Borrowings	*24*	**15,000**	14,980
Trade and other payables	*25*	**103,880**	121,966
Notes payables	*25*	**59,600**	62,313
Amounts due to related parties	*28(c)*	**1,069**	2,086
Current income tax liabilities		**–**	322
		179,549	201,667
Total liabilities		**180,639**	202,903
Total equity and liabilities		**293,189**	319,577

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

Chen Shuming	**Hu Enfeng**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2017	4,459	100,892	6,099	111,450
Profit and total comprehensive income for the year	–	–	4,724	4,724
Share-based compensation reserve *(Note 23(b))*	–	500	–	500
Balance at 31 December 2017	4,459	101,392	10,823	116,674
Balance at 1 January 2018	**4,459**	**101,392**	**10,823**	**116,674**
Loss and total comprehensive income for the year	**–**	**–**	**(4,624)**	**(4,624)**
Share-based compensation reserve *(Note 23(b))*	**–**	**500**	**–**	**500**
Balance at 31 December 2018	**4,459**	**101,892**	**6,199**	**112,550**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*26*	**(10,260)**	5,168
Interest and other finance costs paid		**(975)**	(881)
Income tax paid		**(526)**	(951)
Net cash (used in)/generated from operating activities		**(11,761)**	3,336
Cash flows from investing activities			
Purchase of property, plant and equipment		**(2,788)**	(2,062)
Purchase of intangible assets		**–**	(94)
Changes in amounts due from a related party		**1,511**	(1,519)
Net cash used in investing activities		**(1,277)**	(3,675)
Cash flows from financing activities			
Proceeds from borrowings		**31,388**	2,000
Repayments of borrowings		**(31,368)**	(7,020)
Changes in amounts due to related parties		**4,045**	(3,555)
Net cash generated from/(used in) financing activities		**4,065**	(8,575)
Net decrease in cash and cash equivalents		**(8,973)**	(8,914)
Cash and cash equivalents at beginning of the year		**14,776**	23,833
Exchange gains/(losses) on cash and cash equivalents		**109**	(143)
Cash and cash equivalents at end of the year	*21*	**5,912**	14,776

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

1 GENERAL INFORMATION

Champion Alliance International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the Company's registered office is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands. The Company was formerly known as Mengke Holdings Limited and the name of the Company was changed to its current name on 20 January 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of cigarette packing materials in the People's Republic of China (the "PRC"). The Company's ultimate holding company is Champion Alliance International Corporation ("Champion Alliance International"), which obtained the control of the Company in the year ended 31 December 2018. Champion Alliance International is an investment holding company incorporated in British Virgin Islands ("BVI") and controlled by Mr. Chen Shuming ("Mr. Chen").

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) Compliance with HKFRS and Hong Kong Companies Ordinance

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

(b) Historical cost convention

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 "Financial instruments"
- HKFRS 15 "Revenue from contracts with customers"
- Amendments to HKFRS 2 "Classification and measurement of share-based payment transactions"
- Annual improvements 2014–2016 cycle
- Amendments to HKAS 40 "Transfers to investment property"
- Interpretation 22 "Foreign currency transactions and advance consideration"

The Group had to change its accounting policies and extent of the Group's disclosures following the adoption of HKFRS 9 and HKFRS 15, see Note 2.2. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards and interpretations not yet effective

The following new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group:

		Effective for financial periods beginning on or after
HKFRS 16	Leases	1 January 2019
(HK)Interpretation 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Annual improvements to HKFRS Standards 2015–2017 Cycle	Improvements to HKFRS3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

None of these is expected to be relevant or have material impact to the consolidated financial statements of the Group, except for HKFRS 16 as disclosed below.

HKFRS 16 Leases

Nature of change

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

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. The directors consider that the adoption of the new standard will not have material impact on the financial position and financial performance of the Group because the Group only had non-cancellable operation lease commitments of RMB269,000 as at 31 December 2018, see Note 27, most of which are short-term leases, and will be exempted from reporting obligation under HKFRS 16.

Date of adoption

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements.

2.2.1 Impact on the financial statements

As explained in Note 2.2.2 and 2.2.3 below, HKFRS 9 and HKFRS 15 were generally adopted without restating comparative information. No reclassifications or adjustments are needed to be restated to the balance sheet as at 31 December 2017, or recognised in the opening balance sheet on 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 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 adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.12. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated by the Group.

(i) Classification and measurement

On 1 January 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The management has found no impact on classification and measurement of financial instruments from the adoption of HKFRS 9.

(ii) Impairment of financial assets

The Group's trade and other receivables are subject to impairment under the new expected credit losses model. While cash and cash equivalents and deposits are also subject to the impairment requirements under HKFRS 9, the identified impairment loss was immaterial.

The Group is required to revise its impairment methodology under HKFRS 9 for trade and other receivables. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses an expected lifetime loss allowance for trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group has assessed the impact of expected credit losses on financial assets and concluded that the impact is insignificant as at 1 January 2018 and during current reporting period. Note 3.1.2(b) provides for details about the Group's expected credit loss model.

2.2.3 HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers which resulted in changes in accounting policies and adjustments to the amounts recognised in financial statements. The new accounting policies are set out in Note 2.23. By using the modified retrospective approach in accordance with the transition provisions in HKFRS 15, the comparatives have not been restated by the Group.

The Group's sales of cigarette packaging products are within the scope of the standard.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.3 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The Group has assessed its performance obligations under its arrangements pursuant to HKFRS 15 and has concluded that there are no significant differences between the performance obligations required to be units of account under HKFRS 15 and the deliverables considered to be units of account under HKAS 18 and the consideration is allocated to its performance obligations based on the relative fair value of each deliverables both under HKFRS 15 and HKAS 18.

The Group has concluded that there is no significant impact of HKFRS 15 on revenue recognition as at 1 January 2018 and 31 December 2018.

2.3 Principles of consolidation

2.3.1 Subsidiaries

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

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

2.4 Separate financial statement

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

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

2.5 Segment reporting

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

2.7 Prepaid operating lease

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

2.8 Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment *(Continued)*

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.9 Intangible assets

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Research and development

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

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

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

2.11 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets

(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 (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity'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. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group only has financial assets to be measured at amortised cost comprising "trade and other receivables", "notes receivables", "amounts due from a related party", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheet.

(b) Recognition and derecognition

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

(c) Measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. 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 HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1.2(b) for further details. For other receivables, the Group applies either 12-month ECL or lifetime expected losses method, depending on whether there has been a significant increase in credit risk since initial recognition.

(e) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- *Recognition and measurement*

  Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

- *Impairment*

  The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017 *(Continued)*

- *Impairment (Continued)*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2.13 Offsetting financial instruments

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

2.14 Inventories

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Trade and other receivables and notes receivables

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

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See Note 2.12 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

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

2.16 Cash and cash equivalents and restricted cash

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

2.17 Share capital

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

2.18 Trade and other payables, notes payables and amounts due to related parties

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

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

(a) Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax

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

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

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

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

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

2.21 Employee benefits and share base payments

(a) Social security obligations

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(a) Social security obligations (Continued)

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

(b) Bonus plan

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

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

(c) Employee leave entitlements

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

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

(d) Equity-settled share-based payment transactions

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(d) Equity-settled share-based payment transactions *(Continued)*

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

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

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

2.22 Provisions

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

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

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

2.23 Revenue recognition

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

The Group recognises revenue when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has initially accepted the products; the customers have full discretions to use the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, control of the products has been transferred to the customers, and either the customers have accepted the products in accordance with the sales contracts, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition *(Continued)*

(b) Processing service income

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

2.24 Government grants

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

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

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

2.25 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Operating leases

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 FINANCIAL RISK MANAGEMENT

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

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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

3.1 Financial risk factors

3.1.1 Market risk

(a) Foreign exchange risk

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

At 31 December 2018, the Group's cash at bank of RMB190,000 (31 December 2017: RMB2,038,000), amounts due to related parties of RMB1,069,000 (31 December 2017:amounts due from a related party of RMB1,511,000)and other payables of RMB204,000 (31 December 2017: RMB224,000) were denominated in Hong Kong dollar ("HK$") which exposed the Group to foreign currency risk. If RMB had weakened/strengthened by 5% against HK$, with all other variables held constant, the loss for the year ended 31 December 2018 would have been RMB54,000 higher/lower (profit for the year 2017: RMB166,000 higher/lower), mainly as a result of net foreign exchange gains/losses on the translation of HK$ denominated cash at bank, amounts due to related parties and other payables into RMB.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk *(Continued)*

(b) Cash flow and fair value interest rate risk

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Restricted cash *(Note 20)*	**38,120**	38,719
Cash and cash equivalents *(Note 21)*	**5,912**	14,776
Amounts due from a related party	**–**	1,511
Borrowings *(Note 24)*	**(15,000)**	(14,980)
Net exposure of interest bearing assets	**29,032**	40,026

The annual interest rates of the Group's deposits held in banks during the year ended 31 December 2018 ranged from 0.30% to 1.30% (2017: from 0.30% to 3.20%). The Group's restricted cash and borrowings as of 31 December 2018 were held at fixed rates and exposed the Group to fair value interest rate risk. The Group's cash at banks were held at variable rates and exposed the Group to cash flow rate risk. The Group currently did not use any interest rate swaps to hedge its exposure to interest rate risks as either cash flow or fair value interest rate risk was not significant due to their short-term maturities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

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

(a) *Risk management*

To manage this risk, bank deposits are mainly placed with major financial institutions in the PRC and Hong Kong of high credit quality. There was no recent history of default of cash and cash equivalents and deposits from these financial institutions. The Group's bank deposits as at 31 December 2018 and 2017 are as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash at banks:		
— Big four commercial banks *(Note (i))*	**88**	922
— Other banks	**5,824**	13,854
	5,912	14,776
Restricted cash:		
— Other listed banks	**38,120**	38,719

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

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

All of the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers or counter parties with appropriate credit history and the Group performs periodic credit evaluations of its customers or counter parties. The Group assesses the credit quality of each customer or counter party by taking into account its financial position, past experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures.

(b) *Impairment of financial assets*

The Group applies the HKFRS 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

(b) Impairment of financial assets (Continued)

Other receivables are normally advance to employees and deposits. Management assessed that the expected credit losses of other receivables is immaterial.

As at 31 December 2018, approximately 76.5% (31 December 2017: 78.1%) of the Group's trade receivables and notes receivables were due from the top five largest customers, while 24.2% (31 December 2017: 34.1%) of the Group's trade receivables and notes receivables were due from the largest customer.

To measure the expected credit losses of trade receivable, individual credit evaluation on all customers is performed by management. These evaluation focused on the customer's payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated.

For those individually assessed as not impaired, management collectively assessed the expected credit losses taking into account of the ageing analysis and the history of bad debt losses in respect of those groups of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables.

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**1,046**	–
Impair charge of trade receivables	**1,790**	1,046
Reversal	**(1,046)**	–
At end of the year	**1,790**	1,046

Trade receivables are written off when management considers there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

All of the above impairment charge relate to receivables arising from contracts with customers.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Liquidity risk

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

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

	Less than 1 year *RMB'000*
31 December 2018	
Borrowings	**15,617**
Trade and other payables	**100,156**
Notes payables	**59,600**
Amounts due to related parties	**1,069**
	176,442

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

3.2 Capital management

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

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

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

The gearing ratios at 31 December 2018 and 2017 were as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Borrowings *(Note 24)*	**15,000**	14,980
Amounts due to a third party	**4,326**	–
Amounts due to related parties *(Note 28 (c))*	**1,069**	2,086
Total debt	**20,395**	17,066
Total equity	**112,550**	116,674
Gearing ratio	**18%**	15%

The increase in the gearing ratio during the year ended 31 December 2018 resulted primarily from the increase in amounts due to a third party.

3.3 Fair value estimation

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

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

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimated impairment of trade receivables

The Group records impairment of trade receivables with an assessment made by management on the recoverability of trade receivables, which is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade receivables and the impairment charge in the period in which such estimate has been changed.

(b) Income taxes and deferred taxation

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

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

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

(d) Estimated impairment of inventories

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

5 SEGMENT INFORMATION

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

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

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

As at 31 December 2018, all of operating related non-current assets were located in the PRC (31 December 2017: same).

6 REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of cigarette packaging products:		
— transfer metallised paper	**190,080**	224,528
— laminated metallised paper	**26,677**	13,737
	216,757	238,265
Processing service income	**734**	45
	217,491	238,310

All the revenues in 2018 were recognised at a point in the time.

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Customer A:	**49,852**	76,645
Customer B:	**44,272**	32,391
Customer C:	**29,451**	Not applicable*
Customer D:	**26,730**	64,313
Customer E:	**Not applicable***	27,116

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

7 OTHER INCOME AND OTHER LOSSES — NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other income:		
Rental income	**934**	934
Subsidy income [(i)]	**146**	5,288
Sales of raw material and waste material	**83**	834
	1,163	7,056
Other expenses:		
Cost of rental	**(366)**	(379)
Cost of raw material and waste material sold	**(77)**	(824)
	(443)	(1,203)
Other (losses)/gains:		
Net foreign exchange (losses)/gains	**(22)**	71
Other income and other losses — net	**698**	5,924

(i) There are no unfulfilled conditions or other contingencies attaching to these grants.

8 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials and consumables used	**189,840**	195,522
Changes in inventories of finished goods and work in progress	**(11,734)**	(9,530)
Staff costs (including directors' emoluments) *(Note 9)*	**16,635**	15,917
Transportation expenses	**10,454**	14,463
Utilities	**3,527**	3,565
Depreciation *(Note 16(a))*	**3,392**	3,475
Entertainment expenses	**1,503**	3,625
Other taxes and surcharges	**943**	1,191
Auditors' remuneration	**1,285**	1,126
Travelling expenses	**693**	1,811
Maintenance expenses	**695**	723
Amortisation of prepaid operating lease *(Note 15)*	**223**	225
Other expenses	**5,435**	4,117
Total cost of sales, distribution expenses and administrative expenses	**222,891**	236,230

8 EXPENSES BY NATURE *(Continued)*

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Research and development expenses	**7,998**	7,644

No research and development expenses had been capitalised for the year ended 31 December 2018 (2017: same).

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**14,603**	13,436
Contributions to employee social security plans	**1,532**	1,981
Share-based compensation expenses *(Note 23(b))*	**500**	500
	16,635	15,917

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Benefits and interests of directors

Directors' and chief executive's emoluments

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

For the year ended 31 December 2018:

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee social security plans	Share-based compensation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-executive director						
Mr. Zhang Weixiang ("Mr. Zhang")(i)	433	13	–	30	–	476
Executive directors						
Mr. Fu Ming Ping ("Mr. Fu")(ii)	228	154	–	26	500	908
Mr. Chen (Chairman) (iii)	181	–	–	–	–	181
Mr. He Guangrui (chief executive)(iv)	121	–	–	–	–	121
Mr. Hu Enfeng(v)	31	–	–	–	–	31
Mr. Chen Xiaolong(v)	60	–	–	–	–	60
Mr. Zhang Shihua(v)	6	–	–	–	–	6
Mr. Zhan Qingtao(v)	6	–	–	–	–	6
Independent non-executive directors						
Mr. Cheng Tai Kwan Sunny(vi)	95	–	–	–	–	95
Mr. Tan Yik Chung Wilson(vi)	95	–	–	–	–	95
Mr. Yick Ting Fai Jeffrey(vi)	95	–	–	–	–	95
Mr. Chen Hua(vii)	6	–	–	–	–	6
Mr. Zhao Zhendong(viii)	6	–	–	–	–	6
Mr. Chan Yee Ping Michael(ix)	16	–	–	–	–	16
	1,379	167	–	56	500	2,102

(i) Mr. Zhang has resigned as non-executive director and chairman of the Company with effect from 10 December 2018.

(ii) Mr. Fu has resigned as executive director and chief executive of the Company but remained as the chief operating officer of the PRC subsidiary of the Company and has also ceased to act as a member of both the Nomination Committee and Remuneration Committee of the Company with effect from 10 December 2018.

(iii) Mr. Chen has been appointed as an executive director with effect from 20 November 2018 and has been appointed as chairman of the Company and a member of both the Nomination Committee and Remuneration Committee of the Company with effect from 10 December 2018.

(iv) Mr. He Guangrui has been appointed as an executive director of the Company with effect from 20 November 2018 and has been appointed as chief executive officer of the Company with effect from 10 December 2018.

(v) Mr. Chen Xiaolong, Mr. Hu Enfeng, Mr. Zhang Shihua and Mr. Zhan Qingtao has been appointed as an executive director of the Company with effect from 20 November 2018 or 10 December 2018.

(vi) Mr. Cheng Tai Kwan Sunny, Mr. Tan Yik Chung Wilson and Mr. Yick Ting Fai Jeffrey has resigned as an independent non-executive director and ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 10 December 2018.

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

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

(vii) Mr. Chen Hua has been appointed as an independent non-executive director of the Company with effect from 20 November 2018 and has been appointed as a member of both the Audit Committee and Remuneration Committee of the Company with effect from 10 December 2018.

(viii) Mr. Zhao Zhendong has been appointed as an independent non-executive director of the Company with effect from 20 November 2018 and has been appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 10 December 2018.

(ix) Mr. Chan Yee Ping Michael has been appointed as an independent non-executive director of the Company with effect from 20 November 2018 and has been appointed as a member of both the Audit Committee and Nomination Committee of the Company with effect from 10 December 2018.

For the year ended 31 December 2017:

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

During the year ended 31 December 2018, none of the directors of the Company waived their emoluments nor had agreed to waive their emoluments (2017: same).

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable (2017: same). No consideration was provided to or receivable by third parties for making available directors' services (2017: same). Other than those disclosed in Note 28(c), there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: same).

There were no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: same).

9 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include two (2017: two) directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year ended 31 December 2018 (2017: three) are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**1,471**	1,529
Contributions to employee social security plans	**59**	59
	1,530	1,588

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

	Year ended 31 December	
	2018	2017
Emolument bands from nil to HK$1,000,000 (equivalent to nil to RMB856,000)	**3**	3

During the year ended 31 December 2018, no emolument was paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2017: same).

10 FINANCE EXPENSES — NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income		
— interest income	**396**	543
— exchange gains	**109**	–
	505	543
Finance expenses		
— interest expenses	**(650)**	(941)
— discount charges on bank acceptance notes	**(325)**	–
— exchange losses	**–**	(151)
	(975)	(1,092)
Finance expenses — net	**(470)**	(549)

11 SUBSIDIARIES

The following is a list of the principal subsidiaries at 31 December 2018:

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

(i) Significant restrictions

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

The carrying amount of the assets included within the consolidated financial statements to which these restrictions apply is RMB43,842,000 (31 December 2017: RMB51,457,000).

12 INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax:		
— PRC corporate income tax	**(74)**	746
Deferred income tax:		
— PRC corporate income tax	**(1,218)**	939
	(1,292)	1,685

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

12 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

No provision for Hong Kong profit tax was provided as the Group did not have assessable profit in Hong Kong for the year ended 31 December 2018 (2017: same).

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the year ended 31 December 2018 (2017: same).

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

The Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") for the three years ended 31 December 2018. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the year ended 31 December 2018 (2017: 15%). The directors consider that the subsidiary will continue to be granted the preferential tax treatment through an application of renewal. Accordingly, tax rate of 15% has been used in the calculation of the deferred income tax.

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(5,916)**	6,409
Calculated at applicable corporate income tax rates of the Group's business in Mainland China	**(887)**	961
Tax effect of:		
— Additional deduction on research and development expenses	**(894)**	(569)
— Expenses not deductible for tax purposes	**563**	1,516
— Over-provision of PRC corporate income tax in prior year	**(74)**	(223)
Income tax (credit)/expense	**(1,292)**	1,685

13 (LOSSES)/EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2018	2017
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(4,624)**	4,724
Weighted average number of shares in issue (thousands shares)	**500,000**	500,000
Basic (losses)/earnings per share (expressed in RMB per share)	**(0.92) cents**	0.94 cents

(b) Diluted

Diluted (losses)/earnings per share presented is the same as the basic (losses)/earnings per share as there were no potentially dilutive ordinary shares outstanding during the year ended 31 December 2018 (2017: same).

14 DIVIDENDS

The board of directors does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: same).

15 PREPAID OPERATING LEASE

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**13,979**	13,979
Accumulated amortisation	**(1,875)**	(1,538)
Net book amount	**12,104**	12,441
Amortisation	**(337)**	(337)
Closing net book amount	**11,767**	12,104
At end of the year		
Cost	**13,979**	13,979
Accumulated amortisation	**(2,212)**	(1,875)
Net book amount	**11,767**	12,104

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Costs of sales	**118**	119
Administrative expenses	**105**	106
Other expenses	**114**	112
	337	337

As at 31 December 2018, the prepaid operating lease was pledged as collaterals for the borrowings (Note 24) and bank acceptance notes payable (Note 25) of the Group (31 December 2017: same).

16 PROPERTY, PLANT AND EQUIPMENT AND DEFERRED GOVERNMENT GRANTS

(a) Property, plant and equipment

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
At 1 January 2017						
Cost	35,370	18,475	1,553	1,843	–	57,241
Accumulated depreciation	(7,738)	(10,910)	(706)	(770)	–	(20,124)
Net book amount	27,632	7,565	847	1,073	–	37,117
Year ended 31 December 2017						
Opening net book amount	27,632	7,565	847	1,073	–	37,117
Additions	–	–	–	413	3,502	3,915
Transfers	2,967	140	–	–	(3,107)	–
Depreciation charges	(1,761)	(1,387)	(284)	(310)	–	(3,742)
Closing net book amount	28,838	6,318	563	1,176	395	37,290
At 31 December 2017						
Cost	38,337	18,615	1,553	2,256	395	61,156
Accumulated depreciation	(9,499)	(12,297)	(990)	(1,080)	–	(23,866)
Net book amount	28,838	6,318	563	1,176	395	37,290
At 1 January 2018						
Cost	**38,337**	**18,615**	**1,553**	**2,256**	**395**	**61,156**
Accumulated depreciation	**(9,499)**	**(12,297)**	**(990)**	**(1,080)**	**–**	**(23,866)**
Net book amount	**28,838**	**6,318**	**563**	**1,176**	**395**	**37,290**
Year ended 31 December 2018						
Opening net book amount	**28,838**	**6,318**	**563**	**1,176**	**395**	**37,290**
Additions	**227**	**–**	**–**	**6**	**119**	**352**
Transfers	**–**	**395**	**90**	**29**	**(514)**	**–**
Disposal	**(52)**	**–**	**–**	**(25)**	**–**	**(77)**
Depreciation charges	**(1,855)**	**(1,246)**	**(203)**	**(340)**	**–**	**(3,644)**
Closing net book amount	**27,158**	**5,467**	**450**	**846**	**–**	**33,921**
At 31 December 2018						
Cost	**38,470**	**19,007**	**1,643**	**2,243**	**–**	**61,363**
Accumulated depreciation	**(11,312)**	**(13,540)**	**(1,193)**	**(1,397)**	**–**	**(27,442)**
Net book amount	**27,158**	**5,467**	**450**	**846**	**–**	**33,921**

16 PROPERTY, PLANT AND EQUIPMENT AND DEFERRED GOVERNMENT GRANTS
(Continued)

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Costs of sales	**1,969**	2,152
Distribution expenses	**130**	130
Administrative expenses	**1,293**	1,193
Other expenses	**252**	267
	3,644	3,742

As at 31 December 2018, the costs of fully depreciated property, plant and equipment were RMB8,492,000 (31 December 2017: RMB6,299,000).

As at 31 December 2018, property, plant and equipment with carrying amounts of RMB25,367,000 (31 December 2017: RMB23,725,000) were pledged as collaterals for the borrowings (Note 24) and bank acceptance notes payables (Note 25) of the Group.

(b) Deferred government grants

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of the year	**1,236**	1,382
Amortisation	**(146)**	(146)
At end of the year	**1,090**	1,236

17 DEFERRED INCOME TAX

	31 December 2018 RMB'000	2017 RMB'000
Deferred income tax assets:		
— to be recovered after more than 12 months	**570**	530
— to be recovered within 12 months	**1,275**	356
	1,845	886
Deferred income tax liabilities:		
— to be recovered within 12 months	**(142)**	(401)
Deferred income tax assets — net	**1,703**	485

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

	Year ended 31 December 2018 RMB'000	2017 RMB'000
At beginning of the year	**485**	1,424
Tax credited/(charged) to profit or loss	**1,218**	(939)
At end of the year	**1,703**	485

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

	Deferred income tax assets				Deferred income tax liabilities	
			Timing difference on			
	Bad debt provision RMB'000	Accrued expenses RMB'000	Depreciation RMB'000	Tax losses RMB'000	Exchange gains RMB'000	Total RMB'000
At 1 January 2017	–	969	455	–	–	1,424
Tax credited/(charged) to profit or loss	157	(770)	75	–	(401)	(939)
At 31 December 2017	157	199	530	–	(401)	485
At 1 January 2018	**157**	**199**	**530**	**–**	**(401)**	**485**
Tax credited to profit or loss	**112**	**107**	**40**	**700**	**259**	**1,218**
At 31 December 2018	**269**	**306**	**570**	**700**	**(142)**	**1,703**

17 DEFERRED INCOME TAX *(Continued)*

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

Deferred income tax liabilities of RMB3,915,000 as at 31 December 2018 (31 December 2017: RMB4,081,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of the Group's PRC subsidiary as the directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

18 INVENTORIES

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**42,313**	43,387
Finished goods	**31,093**	16,464
Work in progress	**486**	3,381
	73,892	63,232

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

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Costs of sales	**183,204**	193,095
Distribution expenses	**437**	6
Administrative expenses	**5,729**	5,249
Other expenses	**77**	824
	189,447	199,174

19 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	31 December 2018 RMB'000	2017 RMB'000
Trade receivables *(Note (a))*	**121,641**	145,580
Less: provision for impairment of trade receivables	**(1,790)**	(1,046)
Trade receivables — net	**119,851**	144,534
Others	**2,682**	3,319
	122,533	147,853

	31 December 2018 RMB'000	2017 RMB'000
Notes receivables	**5,000**	3,499

(a) Ageing analysis of trade receivables based on invoice date as at 31 December 2018 is as follows:

	31 December 2018 RMB'000	2017 RMB'000
Less than 30 days	**60,055**	82,098
31 days to 60 days	**22,809**	20,584
61 days to 90 days	**13,036**	26,658
91 days to 120 days	**14,999**	9,570
121 days to 180 days	**7,020**	5,196
Over 180 days	**3,722**	1,474
	121,641	145,580

The Group's sales are usually made on credit terms of 30 to 180 days. As at 31 December 2018, trade receivables of RMB94,650,000 (31 December 2017: RMB109,823,000) were fully performing.

19 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

(Continued)

(a) *(Continued)*

As at 31 December 2018, trade receivables of RMB26,991,000 (31 December 2017: RMB35,757,000) were past due. The ageing analysis of these trade receivables is as follows:

	31 December	
	2018	2017
	RMB'000	*RMB'000*
61 days to 90 days	**9,355**	21,140
91 days to 120 days	**6,894**	8,696
121 days to 180 days	**7,020**	4,447
Over 180 days	**3,722**	1,474
	26,991	35,757

(b) Impaired trade receivables

Note 3.1.2(b) sets out information about the impairment of past due trade receivables.

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

(d) Notes receivables of the Group as at 31 December 2018 mainly represents bank acceptance notes issued by banks with maturity period of 180 days (31 December 2017: same).

(e) As at 31 December 2018, trade receivables with carrying amount of RMB24,940,000 (31 December 2017: RMB17,047,000) were pledged as collaterals for the borrowings (Note 24) of the Group.

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

(g) The carrying amounts of each class of trade and other receivables mentioned above approximate to their fair value due to their short maturities as of 31 December 2018 (31 December 2017: same).

20 RESTRICTED CASH

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	**38,120**	38,719

21 CASH AND CASH EQUIVALENTS

	31 December 2018 RMB'000	2017 RMB'000
Cash at banks and denominated:		
— RMB	**5,722**	12,738
— HK$	**190**	2,038
	5,912	14,776

22 SHARE CAPITAL

	Number of ordinary shares	Share capital HK$
Authorised ordinary share of HK$0.01 each:		
At 31 December 2017 and 2018	1,000,000,000	10,000,000

	Number of ordinary shares	Share capital HK$	Share capital RMB'000
Issued and fully paid up:			
At 31 December 2017 and 2018	500,000,000	5,000,000	4,459

23 OTHER RESERVES

	Share premium RMB'000	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Merger reserve RMB'000	Total RMB'000
At 1 January 2017	63,065	13,024	1,000	23,803	100,892
Share-based compensation reserve *(Note (b))*	–	–	500	–	500
At 31 December 2017	63,065	13,024	1,500	23,803	101,392
At 1 January 2018	**63,065**	**13,024**	**1,500**	**23,803**	**101,392**
Share-based compensation reserve *(Note (b))*	**–**	**–**	**500**	**–**	**500**
At 31 December 2018	**63,065**	**13,024**	**2,000**	**23,803**	**101,892**

23 OTHER RESERVES *(Continued)*

(a) Statutory reserves

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

(b) Share-based compensation reserve

In December 2014, Mr. Zhang sold 13.5% equity interest of Hubei Mengke to Mr. Fu at a consideration of RMB4,500,000 in exchange for five years' consecutive services of Mr.Fu as key management personnel of the Group. The equivalent fair value of the equity interest granted to Mr. Fu is RMB7,000,000. The difference between the consideration and the fair value of the equity interest granted to Mr. Fu is treated as share-based payments to be amortised and charged as staff costs into the profit and loss during the five years' service period using straight line method, with the corresponding credit to other reserves. The total expense recognised for employee services received in respect of the equity interest granted to Mr. Fu for the year ended 31 December 2018 was RMB500,000 (2017: RMB500,000) (Note 9).

24 BORROWINGS

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Current:		
Short term bank borrowings — secured	**15,000**	14,980

The Group's short term bank borrowings were all repayable within one year and bear average interest rate of 4.4% annually as at 31 December 2018 (31 December 2017: 4.3% annually).

The borrowings were secured by prepaid operating lease (Note 15), property, plant and equipment (Note 16(a)), and trade receivables (Note 19(e)) of the Group as at 31 December 2018 (31 December 2017: same).

At 31 December, the Group's borrowings were all repayable within 1 year.

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

25 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	31 December 2018 RMB'000	2017 RMB'000
Trade payables *(Note (a))*	**91,872**	112,455
Accrual for staff costs and allowances	**1,994**	1,939
Payables for acquisition of property, plant and equipment	**56**	2,492
Other tax payables	**1,730**	2,296
Other payables	**8,228**	2,784
	103,880	121,966

	31 December 2018 RMB'000	2017 RMB'000
Notes payables — bank acceptance notes *(Note (c))*	**59,600**	62,313

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

	31 December 2018 RMB'000	2017 RMB'000
Less than 30 days	**55,716**	80,929
31 to 60 days	**12,853**	15,634
61 to 90 days	**–**	5,227
91 to 180 days	**16,821**	6,968
Over 180 days	**6,482**	3,697
	91,872	112,455

(b) The fair value of trade and other payables and notes payables approximate their carrying amounts at 31 December 2018 due to their short-term maturities (31 December 2017: same).

(c) As at 31 December 2018, the ageing of all notes payables were within 6 months. The notes payables were secured by prepaid operating lease (Note 15), property, plant and equipment (Note 16(a)) and restricted cash (Note 20) of the Group as at 31 December 2018 (31 December 2017: same).

26 CASH FLOW INFORMATION

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit before income tax	**(5,916)**	6,409
Adjustments for:		
— Depreciation *(Note 16(a))*	**3,644**	3,742
— Amortisation of prepaid operating lease *(Note 15)*	**337**	337
— Amortisation of intangible assets	**45**	114
— Finance expenses — net	**866**	1,092
— Share-based compensation expenses *(Note 23(b))*	**500**	500
— Government grants income	**(146)**	(206)
— Impairment provision for trade receivables *(Note 3.1.2(b))*	**744**	1,046
— Losses from disposal of property, plant and equipment	**77**	–
Changes in working capital:		
— Inventories	**(10,660)**	(13,915)
— Trade and other receivables and prepayments	**24,576**	24,818
— Notes receivables	**(1,501)**	(2,499)
— Restricted cash	**599**	9,404
— Trade and other payables	**(19,976)**	(600)
— Notes payables	**(2,713)**	(25,810)
— Amounts due to related parties	**(736)**	736
Cash (used in)/generated from operations	**(10,260)**	5,168

26 CASH FLOW INFORMATION *(Continued)*

(b) Net debt reconciliation

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

	31 December 2018 *RMB'000*	2017 *RMB'000*
Borrowings — repayable within one year	**15,000**	14,980
Amounts due to a third party	**4,326**	–
Amounts due to related parties	**1,069**	1,350
Net debt	**20,395**	16,330

	Liabilities			
	Borrowings — repayable within one year *RMB'000*	Amounts due to related parties *RMB'000*	Amounts due to a third party *RMB'000*	Total *RMB'000*
Net debt as at 31 December 2017	14,980	1,350	–	16,330
Cash flows	20	(281)	4,326	4,065
Net debt as at 31 December 2018	15,000	1,069	4,326	20,395

27 COMMITMENTS

(a) Operating leases commitments

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

	31 December 2018 *RMB'000*	2017 *RMB'000*
Within one year	**239**	642
Later than one year but not later than three years	**30**	256
	269	898

28 RELATED PARTY TRANSACTIONS

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

Name	**Relationship**
Mr. Zhang	Former controlling shareholder
Mr. Fu	Key management personnel of the Group
Mr. Chen	Controlling shareholder
Yichang Kunxiang Trading Co., Ltd. ("Yichang Kunxiang")	Ultimately controlled by Mr. Zhang
Champion Alliance International	Ultimate holding company

(b) Key management compensations

Key management compensations other than the emoluments of the executive and non-executive directors disclosed in Note 9(a) for the year ended 31 December 2018 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, bonuses, welfare and other benefits	**988**	1,002
Contributions to pension plans	**107**	107
	1,095	1,109

(c) Balances with related parties

	31 December	
	2018	2017
	RMB'000	*RMB'000*
Amounts due to related parties *(Note (ii))*:		
Champion Alliance International	**1,069**	–
Yichang Kunxiang *(Note (i))*	**Not applicable**	1,350
Mr. Fu	**–**	736
	1,069	2,086

(i) Yichang Kunxiang was no longer related party of the Group after 10 December 2018 when Mr. Zhang resigned as the chairman and non-executive director of the Company.

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

29 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Interests in a subsidiary		**100,348**	98,334
Current assets			
Prepayments		**121**	121
Amounts due from related parties		**20**	11
Cash and cash equivalents		**124**	783
		265	915
Total assets		**100,613**	99,249
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		**4,459**	4,459
Other reserves	*(a)*	**119,406**	119,406
Accumulated losses	*(a)*	**(28,405)**	(27,295)
Total equity		**95,460**	96,570
Current liabilities			
Accruals and other payables		**143**	215
Amounts due to a related party		**5,010**	2,464
		5,153	2,679
Total equity and liabilities		**100,613**	99,249

29 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

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

	Other reserves			
	Share premium *RMB'000*	**Contributed surplus** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	63,065	56,341	(21,997)	97,409
Loss for the year	–	–	(5,298)	(5,298)
Balance at 31 December 2017	63,065	56,341	(27,295)	92,111
At 1 January 2018	**63,065**	**56,341**	**(27,295)**	**92,111**
Loss for the year	**–**	**–**	**(1,110)**	**(1,110)**
Balance at 31 December 2018	**63,065**	**56,341**	**(28,405)**	**91,001**

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and the published audited financial statements and restated/reclassified/represented as appropriate, is set out below.

CONSOLIDATED RESULTS

	2014	2015	2016	2017	**2018**
	RMB'000	*RMB'000*	*RMB'000*	RMB'000	***RMB'000***
Revenue	269,903	319,273	310,708	238,310	**217,491**
Gross profit	49,323	66,373	64,594	44,947	**32,949**
Profit/(loss) for the year	14,579	21,892	(9,435)	4,724	**(4,624)**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

			31 December		
	2014	2015	2016	2017	**2018**
	RMB'000	*RMB'000*	*RMB'000*	RMB'000	***RMB'000***
Assets					
Non-current assets	42,624	52,478	51,110	49,987	**47,454**
Current assets	235,118	241,778	295,990	269,590	**245,735**
Total assets	277,743	294,256	347,100	319,577	**293,189**
Liabilities					
Current liabilities	219,450	239,696	234,268	201,667	**179,549**
Non-current liabilities	1,100	1,502	1,382	1,236	**1,090**
Total liabilities	220,550	241,198	235,650	202,903	**180,639**
Equity					
Total equity	57,193	53,058	111,450	116,674	**112,550**