



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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1629

INTERIM REPORT 2019

**LEADING IN INNOVATION
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Champion Alliance International Holdings Limited
INTERIM REPORT 2019

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CORPORATE INFORMATION

Name of directors

Mr. Chen Shuming
(Chairman and Executive Director)

Mr. He Guangrui
(Executive Director)

Mr. Chen Xiaolong
(Executive Director)

Mr. Hu Enfeng
(Executive Director)

Mr. Zhang Shihua
(Executive Director)

Ms. Chen Xiaoyan
(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.championshipintl.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 54, 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

Wan & Tang
23/F
Somptueux Central
52 Wellington Street
Central, Hong Kong

Auditor

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

Stock code

1629

MANAGEMENT DISCUSSION AND ANALYSIS

Champion Alliance International Holdings Limited (the “Company” or “Champ Alli Intl”) and its subsidiaries (collectively the “Group”) is principally engaged in the production and sale of metallised packaging paper for cigarette package manufacturers. The Company has an operating history of more than 10 years, with two main lines of products, being transfer metallised paper and laminated metallised paper. In 2019, the Group has proactively diversified its business with household paper products, new energy operation (steam for industrial use, household heating, and electricity supply) as the core businesses. The Group will hence continue to stride with its three core businesses.

MARKET REVIEW

Under the policy of “Healthy China 2030”, the Chinese government intends to reduce the smoking population from the current 27% to 20% by 2030 (below 300 million citizens). Therefore, the cigarette packaging business will face greater challenge as the market anticipates tightened control over the tobacco industry.

BUSINESS REVIEW

Sales and Marketing

In the first half of 2019, the Group’s sales revenue reduced by approximately 6.6% as a result of the decrease in demand of cigarette packaging paper which was induced by the decrease in demand of cigarette, due to the overall tightened government control policy over the tobacco industry.

During the period under review, we continued to expand into new markets in China. Among all the projects that were under negotiation in 2018, 4 contracts were concluded, another 2 projects were under implementation stage. Our new accounts are mainly scattered over Anhui and Jiangsu areas. Besides negotiation, business might also proceed through non-tender bidding co-operation. As of the date of this interim report, the Group hired a total of 22 sales representatives to formulate marketing strategies, devise marketing plans, manage sales business, organise cargo transportation and develop customer service models, in order to boost our sales.

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 capacity, actual production volume and utilisation rates of the production base in Yichang, Hubei Province for the six months ended 30 June 2019 and their comparison with the corresponding period in 2018.

	Six months ended 30 June	
	2019	2018
Production capacity (<i>thousand metres</i>)	102,400	102,400
Actual production volume (<i>thousand metres</i>)	40,594	48,794
Utilisation rate	39.6%	47.7%

MANAGEMENT DISCUSSION AND ANALYSIS

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

Quality Control

For the six months ended 30 June 2019, the Company obtained the certification and 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 six months ended 30 June 2019, the total revenue was approximately RMB231.2 million. Compared to the total revenue of approximately RMB102.2 million for the corresponding period in 2018, there was a stark increase of approximately RMB129.0 million.

The following table sets forth the breakdown of the Group's revenue for the six months ended 30 June 2019 and 2018:

	For the six months ended 30 June		Change %
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	
Cigarette packaging product			
— transfer metallised paper	82,913	89,611	(7.5%)
— laminated metallised paper	12,539	12,573	(0.3%)
Processing service income	—	5	(100%)
Other businesses	135,783	—	N/A

Cigarette Packaging Business

For the six months ended 30 June 2019, the revenue of the cigarette packaging business was approximately RMB95.5 million (six months ended 30 June 2018: RMB102.2 million), representing a decrease of approximately 6.6% as compared with the corresponding period in 2018. The reduce in revenue was due to the government's strengthened control over the industry as well as the corresponding quantity of supply of cigarette, hence the reduction of market demand in cigarette packaging.

Other Businesses

For the six months ended 30 June 2019, the revenue of other businesses was approximately RMB135.8 million. Products from other businesses consists of household paper products, new energy operation (steam for industrial use, household heating, and electricity supply). The increase in revenue was due to the Group's effort to diversify and develop new businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

The Group's gross profit increased from approximately RMB16.7 million for the six months ended 30 June 2018 to approximately RMB36.4 million for the six months ended 30 June 2019. The increase was mainly due to the increase in revenue. The Group's gross profit margin decreased from approximately 16.4% for the six months ended 30 June 2018 to approximately 15.7% for the six months ended 30 June 2019. The decrease in gross profit margin was the result of (i) decrease in the price of some of the products; and (ii) structural changes of the products.

Other Income and Other Losses — Net

For the six months ended 30 June 2019, the Group's other income consisted of rental income, sales of raw materials and subsidy income. Other expenses and other losses included cost of rental and cost of raw and waste materials. The net of other income and other losses increased from approximately RMB313,000 for the six months ended 30 June 2018 to approximately RMB906,000 for the six months ended 30 June 2019, mainly due to sales of raw materials.

Distribution Expenses

During the period under review, distribution expenses mainly consisted of (i) costs of transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) other expenses. The Group's distribution expenses increased by approximately 95.3% from approximately RMB5.6 million for the six months ended 30 June 2018 to approximately RMB11.0 million for the six months ended 30 June 2019. The increase in distribution expenses of the Group was mainly due to the investment in new businesses.

Administrative Expenses

For the six months ended 30 June 2019, 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 increased from approximately RMB10.1 million for the six months ended 30 June 2018 to approximately RMB14.3 million for the six months ended 30 June 2019. The increase in administrative expenses of the Group was mainly due to the investment in new businesses.

Finance Expenses — Net

During the review period, 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 exchange losses. The net finance expenses were approximately RMB2.4 million.

Income Tax Expense

The Group's income tax expense increased by approximately 1,329.3% from approximately RMB184,000 for the six months ended 30 June 2018 to approximately RMB2.6 million for the six months ended 30 June 2019. The increase was mainly due to the investment in new businesses.

Profit Attributable to Equity Holders of the Company

For the six months ended 30 June 2019, the Group's profit attributable to equity holders of the Company was approximately RMB7.0 million (six months ended 30 June 2018: approximately RMB1.1 million). The profit attributable to equity holders of the Company for the period under review was primarily due to the investment in new businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB74.6 million as at 30 June 2019, while the net current assets as at 30 June 2018 was approximately RMB67.9 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 30 June 2019 were approximately RMB15.0 million (as at 30 June 2018: RMB15.0 million). The Group's gearing ratio decreased from approximately 12.7% as at 30 June 2018 to approximately 12.5% as at 30 June 2019. The decrease of gearing ratio was mainly due to an increase in profit as at 30 June 2019. Gearing ratio was calculated by dividing total debt (which consisted of borrowings and amounts due to a related party) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the six months ended 30 June 2019, the Group's total capital expenditure amounted to approximately RMB405,000 (six months ended 30 June 2018: approximately RMB3.3 million), which was mainly used in assets under construction.

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 six months ended 30 June 2019, there has 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 30 June 2019 RMB'000	As at 30 June 2018 RMB'000
Prepaid operating lease	11,737	11,937
Property, plant and equipment	24,127	25,136
Trade receivables	18,554	14,387
Restricted cash	32,059	31,388
	<hr/>	<hr/>
Total	86,477	82,848

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in this interim report, there were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities (as at 30 June 2018: nil).

FOREIGN EXCHANGE RISK

The Group's transactions were mainly conducted in Renminbi ("RMB"), the functional currency of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, loans to a director of the Company 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 six months ended 30 June 2019 (six months ended 30 June 2018: nil).

HUMAN RESOURCES AND REMUNERATION

As at 30 June 2019, the Group employed 262 employees (as at 30 June 2018: 150) with total staff costs of approximately RMB11.7 million incurred for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB7.5 million). The increase in staff costs of the Group was mainly due to the increase in number of employees and the increase in salary of the Directors. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2019, 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 <i>RMB'000</i>	Approximate% of total actual net proceeds	Actual amount utilised from the Listing Date up to 30 June 2019 <i>RMB'000</i>	Balance as at 30 June 2019 <i>RMB'000</i>	Expected timeline for the remaining use of net proceeds ^(Note)	
					For the year ending 31 December 2019 <i>RMB'000</i>	For the year ending 31 December 2020 <i>RMB'000</i>
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,541	19,762	2,200	17,562
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,304	4,334	4,334	–
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%	13,489	24,096	6,534	17,562

Note: The expected timeline for utilising the remaining net proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

As at 30 June 2019, 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.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the business plan disclosed in the Prospectus or in this interim report, there is no other plan for material investments or capital assets as at 30 June 2019.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group did not have any capital commitments (as at 30 June 2018: nil).

FUTURE OUTLOOK

Looking forward, the tobacco market anticipates tightened government control policy over the industry in the coming years and consequently the demand for tobacco related products is expected to drop. Nonetheless, the Group will continue to consolidate our market position through technique innovation and greater marketing and promotion efforts. We will focus on the market development in Anhui Province and Jiangsu Province in China. Overall, the Group is still optimistic about the outlook of the tobacco and its related markets in China.

With the arrival of the peak season in the second half of 2019, the demand for tobacco is expected to increase. Riding on this opportunity, the Group will invest approximately RMB1 million for marketing and brand promotion purpose. Our dedication to spatial marketing remains and we will continue to employ our unique management style to develop new markets to acquire market shares.

While solidifying our cigarette packaging business, we will continue to seek new opportunities in the household paper products as well as new energy operation business; in the light of the immense potential for further growth in the domestic market, to generate growth potential through our professional management team in steam for industrial use, household heating, and electricity supply. We will continue to strive for better results and thus to maximise returns to shareholders and society through our peerless dedication to optimise our businesses.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

As a publicly listed company, the Directors recognize the importance of good corporate governance standards and internal procedures so as to achieve effective accountability and enhance shareholders' value. 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company throughout the Period.

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

As at 30 June 2019, the following Director or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

Interests in the Company

Name	Nature of Interest	Number of Shares held (long position)	Approximate percentage of interests
Mr. 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interests in Associated Corporations of the Company

As at 30 June 2019, 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 30 June 2019, 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 30 June 2019, 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
Champion Alliance International Corporation	Beneficial owner (<i>Note 1</i>)	350,000,000	70.00%
Ms. Chen Xiuchun	Interest of spouse (<i>Note 2</i>)	350,000,000	70.00%
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 Group Corporation	Beneficial owner (<i>Note 3</i>)	25,000,000	5.00%
Ms. Tao Wei	Interest of spouse (<i>Note 4</i>)	25,000,000	5.00%

Notes:

1. These Shares were beneficially owned by Champion Alliance International Corporation, which is wholly-owned by Mr. Chen.
2. Ms. Chen Xiuchun is the spouse of Mr. Chen, who in turn beneficially owns the entire issued share capital of Champion Alliance International Corporation, and is deemed to be interested in all the Shares in which Mr. Chen is interested pursuant to the SFO.
3. These Shares were beneficially owned by Million Success Group Corporation, which is in turn wholly-owned by Mr. He.
4. Ms. Tao Wei is the spouse of Mr. He, who in turn beneficially owns the entire issued share capital of Million Success Group Corporation, 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 30 June 2019, 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 the Company's shareholders passed on 3 November 2016. The terms of the Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The principal terms of the Scheme are summarised in the section headed "D. Share Option Scheme" in Appendix V of the Prospectus. As of the date of this interim report, no option had been granted, agreed to be granted, exercised, cancelled or lapsed under the Scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

DIRECTORS' MATERIAL INTERESTS IN CONTRACTS

Save as disclosed above or in this interim report, no Director had any material interests in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Period.

CHANGE IN INFORMATION OF THE DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information on the Directors are as follows:

Ms. Chen Xiaoyan has been appointed as an executive Director of the Company on 27 June 2019.

Mr. Zhan Qingtao has resigned as an executive Director of the Company on 27 June 2019.

For details of the changes of information on the Directors, please refer to the Company's announcement dated 27 June 2019.

AUDIT COMMITTEE

The Company established the audit committee of the Board (the "Audit Committee") on 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 composition of the Audit Committee meets the requirements of Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee, among other things, are to ensure the adequacy and effectiveness of the accounting and financial controls of the Group, oversee the performance of internal control systems and financial reporting process, monitor the integrity of the financial statements and compliance with statutory and listing requirements and oversee the independence and qualifications of the external auditors and objectivity and the effectiveness of the audit process in accordance with applicable standards. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 together with the notes attached thereto have been reviewed by the Audit Committee but have not been audited by the Company's auditor.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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/she has complied in full with the Model Code throughout the Period.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event during the period from 1 July 2019 up to the date of this interim report.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	7	231,235	102,189
Costs of sales	9	(194,848)	(85,460)
Gross profit		36,387	16,729
Other income and other losses — net	8	906	313
Distribution expenses	9	(11,028)	(5,648)
Administrative expenses	9	(14,251)	(10,083)
Operating profit		12,014	1,311
Finance income		196	259
Finance expenses		(2,565)	(324)
Finance expenses — net		(2,369)	(65)
Profit before income tax		9,645	1,246
Income tax expense	10	(2,630)	(184)
Profit for the period		7,015	1,062
Other comprehensive income		—	—
Total comprehensive income for the period		7,015	1,062
Attributable to:			
Equity holders of the Company		7,015	1,062
Earnings per share (expressed in RMB per share)			
— Basic and diluted	11	1.40 cents	0.21 cents

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Assets			
Non-current assets			
Prepaid operating lease		–	11,767
Property, plant and equipment	13	32,595	33,921
Right-of-use assets	3	11,737	–
Intangible assets		175	63
Deferred income tax assets		1,703	1,703
		46,210	47,454
Current assets			
Inventories		75,004	73,892
Trade and other receivables and prepayments	14	155,114	122,533
Notes receivables	14	1,578	5,000
Restricted cash	15	32,059	38,120
Cash and cash equivalents	16	38,929	5,912
Other current assets		–	278
		302,684	245,735
Total assets		348,894	293,189
Equity and liabilities			
Equity			
Share capital	17	4,459	4,459
Other reserves		102,142	101,892
Retained earnings		13,214	6,199
Total equity		119,815	112,550

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June 2019	As at 31 December 2018
	<i>Notes</i>	RMB'000 (Unaudited)	<i>RMB'000</i> <i>(Audited)</i>
Liabilities			
Non-current liabilities			
Deferred government grants		1,017	1,090
Current liabilities			
Borrowings	18	15,000	15,000
Trade and other payables	19	147,747	103,880
Lease liabilities	3	165	–
Notes payables	19	62,059	59,600
Amount due to ultimate holding company	20(c)	2,605	1,069
Current income tax liabilities		486	–
		228,062	179,549
Total liabilities		229,079	180,639
Total equity and liabilities		348,894	293,189

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i> (Unaudited)	Other reserves <i>RMB'000</i> (Unaudited)	Retained earnings <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Balance at 1 January 2019	4,459	101,892	6,199	112,550
Profit and total comprehensive income for the period	–	–	7,015	7,015
Share-based compensation reserve	–	250	–	250
Balance at 30 June 2019	4,459	102,142	13,214	119,815
Balance at 1 January 2018	4,459	101,392	10,823	116,674
Profit and total comprehensive income for the period	–	–	1,062	1,062
Share-based compensation reserve	–	250	–	250
Balance at 30 June 2018	4,459	101,642	11,885	117,986

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Cash flows from operating activities		
Cash generated from operations	36,414	2,655
Interest and other finance costs paid	(944)	(341)
Income tax paid	(1,866)	(288)
Net cash generated from operating activities	33,604	2,026
Cash flows from investing activities		
Purchases of property, plant and equipment	(405)	(3,284)
Purchases of intangible assets	(41)	–
Changes in amounts due from a related party	–	1,511
Net cash used in investing activities	(446)	(1,773)
Cash flows from financing activities		
Proceeds from borrowings	–	16,388
Repayments of borrowings	–	(16,368)
Payments of lease liabilities (including interest)	(141)	–
Changes in amounts due to related parties	–	(2,086)
Net cash used in financing activities	(141)	(2,066)
Net increase/(decrease) in cash and cash equivalents	33,017	(1,813)
Cash and cash equivalents at beginning of the period	5,912	14,776
Exchange gains on cash and cash equivalents	–	17
Cash and cash equivalents at end of the period	38,929	12,980

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisitions that are not businesses

For the period ended 30 June 2019

The net assets acquired by the Group during the period are as follows:

	Lead Design International Group Limited ("Lead Design") <i>RMB'000</i> <i>(Note a)</i>	Fantasy Prospect Enterprises Limited ("Fantasy Prospect") <i>RMB'000</i> <i>(Note b)</i>	Total <i>RMB'000</i>
Net assets acquired:			
Bank balances	7,803,000	7,803,000	15,606,000
Satisfied by:			
Cash	7,803,000	7,803,000	15,606,000

An analysis of the cash flows in respect of the acquisitions of Lead Design and Fantasy Prospect are as follows:

	Lead Design <i>RMB'000</i>	Fantasy Prospect <i>RMB'000</i>	Total <i>RMB'000</i>
Cash consideration	(7,803,000)	(7,803,000)	(15,606,000)
Bank balances acquired	7,803,000	7,803,000	15,606,000
Net outflow of cash and cash equivalents	–	–	–

Notes:

- (a) On 1 January 2019, the Group entered into a provisional sale and purchase agreement with an independent third party to acquire the entire equity interest of Lead Design, which does not have any business activity at a total cash consideration of HKD9,000,000 (equivalent to approximately RMB7,803,000). The acquisition was completed on 23 January 2019.
- (b) On 1 January 2019, the Group entered into a provisional sale and purchase agreement with an independent third party to acquire the entire equity interest of Fantasy Prospect, which does not have any business activity at a total cash consideration of HKD9,000,000 (equivalent to approximately RMB7,803,000). The acquisition was completed on 23 January 2019.

The above acquisitions have been accounted for by the Group as acquisitions of assets as the entities acquired by the Group do not constitute a business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 is an investment holding company and the Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the manufacturing and sale of cigarette packing materials in the People’s Republic of China (the “PRC”). The ultimate parent company of the Company is Champion Alliance International Corporation, a company incorporated in British Virgin Islands (“BVI”) and controlled by Mr. Chen Shuming (“Mr. Chen”) the executive Director and controlling shareholder of the Company.

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

This interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 (the “Interim Financial Information”) is presented in Renminbi (“RMB”), unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the audit committee of the Company.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard 34 Interim financial reporting.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2018 and any public announcements made by the Company during the interim reporting period.

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended Hong Kong Financial Reporting Standards (“HKFRS”) as set out below in Note 3.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group’s financial statements and discloses the new accounting policies that have been applied from 1 January 2019 below.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.4%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	265
Discounted using the lessee's incremental borrowing rate as at the date of initial application	(12)
Lease liability recognised as at 1 January 2019	253
Of which are:	
Current lease liabilities	224
Non-current lease liabilities	29
	253

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	As at 30 June 2019 <i>RMB'000</i>	As at 1 January 2019 <i>RMB'000</i>
Prepaid operating lease	11,572	11,767
Properties	165	253
Total right-of-use assets	11,737	12,020

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

Prepaid operating lease	—	decreased by RMB11,767,000
Right-of-use assets	—	increased by RMB12,020,000
Lease liabilities	—	increased by RMB253,000

The net impact on retained earnings on 1 January 2019 was nil.

Prepaid lease payment in respect of the land use right in the PRC is currently reclassified and recognised as right-of-use assets under HKFRS 16.

The adjustment of the opening balances (affected items only) below results from the initial application of the HKFRS 16 as at 1 January 2018. The prior-year amounts were not adjusted.

	As at 31 December 2018	HKFRS 16 Reclassification	HKFRS 16 Contract capitalisation	As at 1 January 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets:				
Prepaid operating lease	11,767	(11,767)	—	—
Right-of-use assets	—	11,767	253	12,020
Liabilities:				
Lease liabilities	—	—	253	253

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) Practical expedients applied *(Continued)*

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and *HK(IFRIC) 4 Determining whether an Arrangement contains a Lease*.

The Group leases the office. Rental contract is typically made for fixed period of 2 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, lease of property, plant and equipment was classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 ESTIMATES

The preparation of the Interim Financial Information requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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 of the Company (the "Board").

The Interim Financial Information has not included all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

There have been no changes in the risk management policies since the year end.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) 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.

As at 30 June 2019, substantially all of the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which the management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 30 June 2019 and 31 December 2018 are as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Cash at banks:		
— Big four commercial banks <i>(Note (i))</i>	1,986	88
— Other listed banks	36,943	5,824
	38,929	5,912
Restricted cash:		
— Other listed banks	32,059	38,120

Note:

- (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk *(Continued)*

As at 30 June 2019, approximately 61.4% (31 December 2018: approximately 76.5%) of the Group's trade receivables were due from the top five largest customers, while approximately 15.3% (31 December 2018: approximately 24.2%) of the Group's trade receivables were due from the largest customer.

All of the Group's trade receivables and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers or cash advances and deposits are made to counter parties with appropriate credit history and the Group performs periodic credit evaluations of its customers or counter parties. The Group assesses the credit quality of each customer or counter party by taking into account its financial position, past experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regard, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the consolidated financial statements after assessing the collectability of debts. Further quantitative disclosures in respect of trade and other receivables are set out in Note 14.

(c) 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 and notes receivables. The Group's financial liabilities include trade and other payables, notes payables, borrowings and amounts due to a related party. Their carrying values approximated their fair values due to their short maturities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive director of the Company.

The Group is principally engaged in the manufacturing and sale of packing materials for cigarette in the PRC. During the year, the Group also engaged in paper production and products (collectively referred to paper production and products) and steam for industrial use and heating and electricity (collectively referred to steam for industrial use and heating and electricity).

The Directors assess the performance of the operating segments based on a measure of segment results. This measurement includes the Group's share of results of associates and joint ventures on a proportionate consolidated basis. Unallocated corporate expenses, finance income and costs, taxation and other major items that are isolated and non-recurring in nature are not included in segment results.

The CODM assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"). EBITDA represents earnings before interest income, finance costs, income tax, depreciation and amortization, gain/loss on disposal of property, plant and equipment, investment properties, interests in leasehold land, right-of-use assets and intangible assets, net other gains/losses, losses on property, plant and equipment, restructuring costs, impairment losses on goodwill, tangible and intangible assets and interests in associates and joint ventures, and the Group's share of results of associates and joint ventures.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

6 SEGMENT INFORMATION *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's CODM is set out below:

	Cigarette packaging products		Paper production and products		Steam for industrial use and heating and electricity		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue								
Revenue from external customers	95,452	102,189	86,301	–	49,482	–	231,235	102,189
Segment (loss)/profit	(7,356)	3,331	8,606	–	13,974	–	15,224	3,331
Other income and other losses								
— net							906	313
Finance expenses — net							(2,369)	(66)
Unallocated group expenses							(4,116)	(2,332)
Profit before income tax							9,645	1,246
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2019	2018	2019	2018	2019	2018	2019	2018
Segment assets	262,781	292,541	11,164	–	32,648	–	306,593	292,541
Reconciliation:								
Corporate and other unallocated assets							42,301	648
Total assets							348,894	293,189
Segment liabilities	156,274	179,150	3,631	–	20,073	–	179,978	179,150
Reconciliation:								
Corporate and other unallocated liabilities							49,101	1,489
Total liabilities							229,079	180,639

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

As at 30 June 2019, majority of the non-current assets were located in the PRC (31 December 2018: same).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 REVENUE

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Sales of cigarette packaging products:		
— transfer metallised paper	82,913	89,611
— laminated metallised paper	12,539	12,573
	95,452	102,184
Processing service income	—	5
Steam for industrial use and heating and electricity	49,482	—
Paper production and products	86,301	—
	231,235	102,189

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

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Customer A:	Not applicable*	28,190
Customer B:	Not applicable*	21,032
Customer C:	Not applicable*	15,023
Customer D:	Not applicable*	Not applicable*
Customer E:	32,655	Not applicable*

Note*: The revenue from the particular customers for the particular period is less than 10% of the Group's revenue for the particular period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 OTHER INCOME AND OTHER LOSSES — NET

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Other income:		
Rental income	467	467
Subsidy income	73	73
Sales of raw materials and waste materials	404	–
	944	540
Other expenses:		
Cost of rental	–	(189)
Cost of raw materials and waste materials sold	(38)	–
Other losses:		
Exchange losses	–	(38)
Other income and other losses — net	906	313

9 EXPENSES BY NATURE

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Raw materials and consumables used	188,416	82,617
Changes in inventories of finished goods and work in progress	(7,052)	(1,095)
Staff costs (including directors' emoluments)	11,744	7,545
Transportation expenses	7,867	4,588
Utilities	1,796	1,672
Depreciation of property, plant and equipment	1,666	1,858
Depreciation of right-of-use assets	333	–
Entertainment expenses	1,540	880
Other taxes and surcharges	495	381
Amortisation of prepaid operating lease	–	111
Impairment provision for trade and other receivables	175	–
Other expenses	13,147	2,634
Total cost of sales, distribution expenses and administrative expenses	220,127	101,191

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)
Current income tax:		
— PRC corporate income tax	2,630	384
Deferred income tax:		
— PRC corporate income tax	–	(200)
	2,630	184

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

No provision for Hong Kong profits tax was provided as the Group did not have assessable profit in Hong Kong for the six months ended 30 June 2019 (six months ended 30 June 2018: nil). The profit of the group entity in Hong Kong is mainly derived from dividend income from its subsidiary, which is not subject to Hong Kong profits tax.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the six months ended 30 June 2019 (six months ended 30 June 2018: same).

On 16 March 2007, the National People's Congress of the PRC 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%.

One of the Group's subsidiaries in the PRC, Hubei Mengke Paper Co. Ltd., was designated as High and New Technology Enterprise ("HNTE") in 2013 and re-designated as the same in 2019. The qualification is valid for three years ending 31 December 2021. Consequently, the subsidiary is entitled to preferential income tax rate of 15% for the six months ended 30 June 2019 (six months ended 30 June 2018: 15%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 EARNINGS PER SHARE

(a) Basic

The basic earnings per share is calculated on the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (RMB'000)	7,015	1,062
Weighted average number of shares in issue (thousands shares)	500,000	500,000
Basic earnings per share (RMB per share)	1.40 cents	0.21 cents

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares outstanding during the six months ended 30 June 2019 (six months ended 30 June 2018: same).

12 DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings <i>RMB'000</i> (Unaudited)	Machinery <i>RMB'000</i> (Unaudited)	Motor vehicles <i>RMB'000</i> (Unaudited)	Office equipment <i>RMB'000</i> (Unaudited)	Assets under construction <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
At 1 January 2019						
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
Six months ended 30 June 2019						
Opening net book amount	27,158	5,467	450	846	–	33,921
Additions	–	–	–	18	387	405
Transfers	–	–	–	–	–	–
Depreciation charges	(935)	(544)	(92)	(160)	–	(1,731)
Closing net book amount	26,223	4,923	358	704	387	32,595
At 30 June 2019						
Cost	38,470	19,007	1,643	2,261	387	61,768
Accumulated depreciation	(12,247)	(14,084)	(1,285)	(1,557)	–	(29,173)
Net book amount	26,223	4,923	358	704	387	32,595
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
Six months ended 30 June 2018						
Opening net book amount	28,838	6,318	563	1,176	395	37,290
Additions	228	–	–	12	–	240
Transfers	–	395	–	–	(395)	–
Depreciation charges	(974)	(687)	(122)	(208)	–	(1,991)
Closing net book amount	28,092	6,026	441	980	–	35,539
At 30 June 2018						
Cost	38,565	19,010	1,553	2,268	–	61,396
Accumulated depreciation	(10,473)	(12,984)	(1,112)	(1,288)	–	(25,857)
Net book amount	28,092	6,026	441	980	–	35,539

As at 30 June 2019, property, plant and equipment with carrying amounts of RMB24,127,000 (31 December 2018: RMB25,367,000) were pledged as collaterals for the borrowings (Note 18) and bank acceptance notes payables (Note 19) of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS AND NOTES RECEIVABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade receivables (<i>Note (a)</i>)	95,742	121,641
Less: provision for impairment of trade receivables	(1,790)	(1,790)
Trade receivables — net	93,952	119,851
Deductible value-added-tax (“VAT”) (<i>Note (b)</i>)	656	–
Others	60,506	2,682
	155,114	122,533
Notes receivables (<i>Note (c)</i>)	1,578	5,000

Notes:

(a) The ageing analysis of trade receivables based on invoice date as at 30 June 2019 is as follows:

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Less than 30 days	57,853	60,055
31 days to 60 days	12,540	22,809
61 days to 90 days	–	13,036
91 days to 120 days	20,038	14,999
121 days to 180 days	–	7,020
Over 180 days	5,311	3,722
	95,742	121,641

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

(c) Notes receivables of the Group as at 30 June 2019 mainly represent bank acceptance notes issued by banks with maturity period of 180 days (31 December 2018: same).

(d) As at 30 June 2019, trade receivables with carrying amount of RMB18,554,000 (31 December 2018: RMB24,940,000) were pledged as collaterals for the borrowings (Note 18) of the Group.

(e) The carrying amounts of trade and other receivables and notes receivables are all denominated in RMB.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15 RESTRICTED CASH

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	32,059	38,120

16 CASH AND CASH EQUIVALENTS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Cash at banks and denominated:		
— RMB	32,099	5,722
— HK\$	6,830	190
	38,929	5,912

17 SHARE CAPITAL

	Number of ordinary shares	Share capital HK\$
Authorised ordinary share of HK\$0.01 each:		
At 31 December 2018 and 30 June 2019	1,000,000,000	10,000,000
	Number of ordinary shares	Share capital HK\$ RMB'000
Issued and fully paid up:		
At 1 January and 30 June 2019	500,000,000	5,000,000 4,459

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18 BORROWINGS

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Current:		
Short term bank borrowings — secured	15,000	15,000

The borrowings were secured by prepaid operating lease, property, plant and equipment (Note 13), and trade receivables (Note 14(c)) of the Group as at 30 June 2019 (31 December 2018: same).

19 TRADE AND OTHER PAYABLES AND NOTES PAYABLES

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Trade payables (Note (a))	72,628	91,872
Accrual for staff costs and allowances	2,466	1,994
Payables for acquisition of property, plant and equipment	—	56
Other tax payables	139	1,730
Other payables	72,514	8,228
	147,747	103,880
Notes payables — bank acceptance notes (Note (b))	62,059	59,600

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19 TRADE AND OTHER PAYABLES AND NOTES PAYABLES *(Continued)*

Notes:

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

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Less than 30 days	21,458	55,716
31 to 60 days	15,633	12,853
61 to 90 days	8,343	–
91 to 180 days	23,088	16,821
Over 180 days	4,106	6,482
	72,628	91,872

- (b) As at 30 June 2019, the ageing of all notes payables were within 6 months. The notes payables were secured by prepaid operating lease, property, plant and equipment (Note 13) and restricted cash (Note 15) of the Group as at 30 June 2019 (31 December 2018: same).
- (c) The fair value of trade and other payables and notes payables approximated their carrying amounts as at 30 June 2019 due to their short-term maturities (31 December 2018: same).

20 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 Weixiang	Former controlling shareholder
Mr. Chen Shuming (“Mr. Chen”)	Executive director and controlling shareholder
Champion Alliance International Corporation	Ultimately holding company

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management compensations

Key management compensations for the period are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, wages, bonuses, welfare and other benefits	2,296	796
Contributions to pension plans	8	61
	2,304	857

(c) Balance with a related party

	As at	As at
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Champion Alliance International Corporation (note)	2,605	1,069

Note: The amount due to ultimate holding company was unsecured, interest-free and repayable on demand.

By Order of the Board
Champion Alliance International Holdings Limited
Chen Shuming
Chairman and Executive Director

Hong Kong, 29 August 2019

As at the date of this report, the Board comprises Mr. Chen Shuming, Mr. He Guangrui, Mr. Chen Xiaolong, Mr. Hu Enfeng, Mr. Zhang Shihua and Ms. Chen Xiaoyan as executive Directors and Mr. Chen Hua, Mr. Zhao Zhendong and Mr. Chan Yee Ping Michael as independent non-executive Directors.