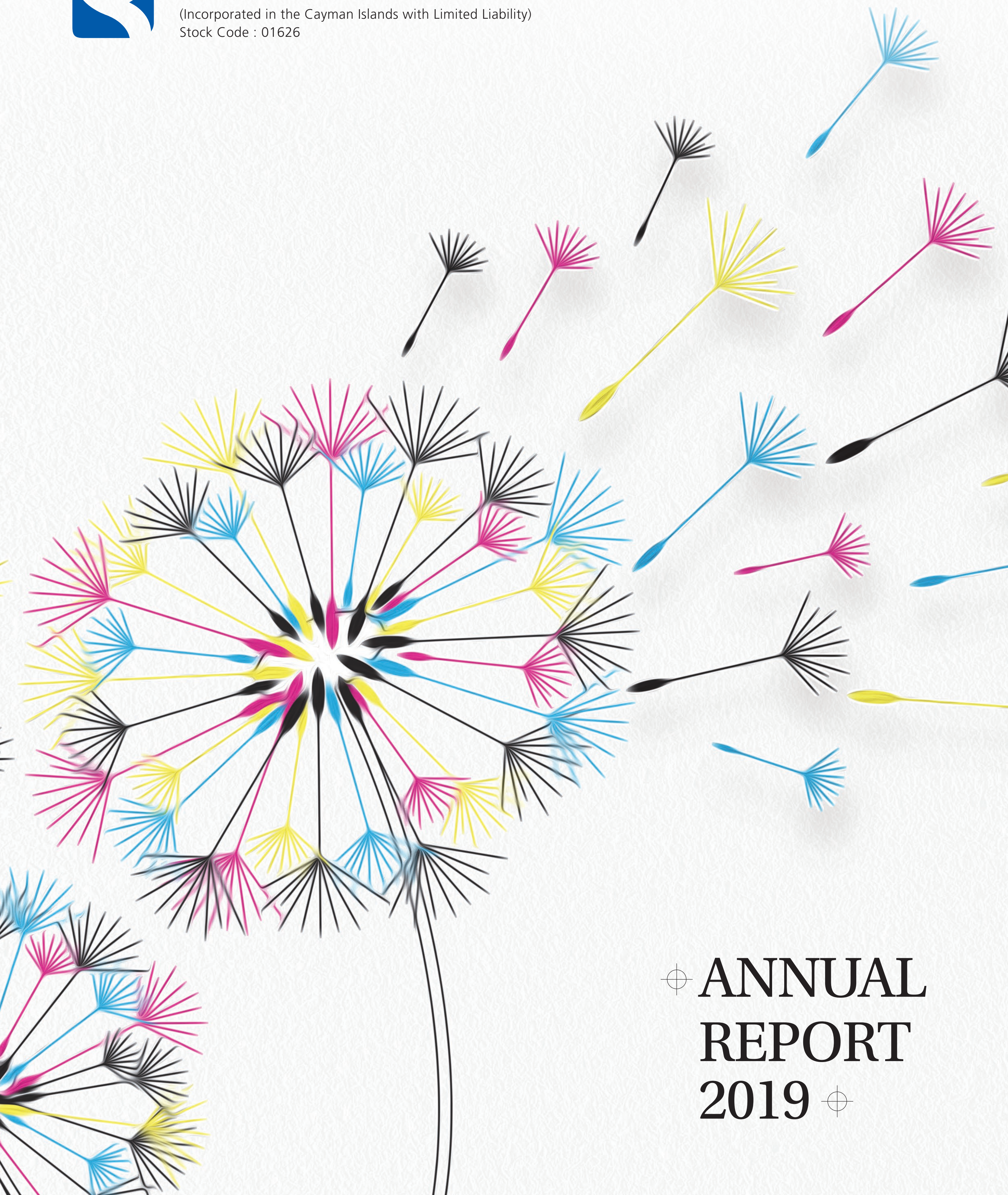
JIA YAO HOLDINGS LIMITED
嘉耀控股有限公司

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



ANNUAL REPORT 2019

CONTENTS

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of Jia Yao Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Year") together with the comparative figures for the corresponding period in 2018.

- Revenue for the year ended 31 December 2019 increased by approximately 2.5% or RMB14.1 million to approximately RMB581.3 million as compared with the same period in 2018.
- Gross profit for the year ended 31 December 2019 increased by approximately 2.9% or RMB3.5 million to approximately RMB126.0 million as compared with the same period in 2018.
- Gross profit margin for the year ended 31 December 2019 increased by approximately 0.1% from approximately 21.6% to approximately 21.7% as compared with the same period in 2018.
- Profit attributable to owners of the Company for the year ended 31 December 2019 decreased by approximately 67.5% or RMB8.8 million to approximately RMB4.2 million as compared with the same period in 2018.
- Average trade and notes receivable turnover days decreased from approximately 99 days for the year ended 31 December 2018 to approximately 83 days for the year ended 31 December 2019.
- Average trade and notes payable turnover days increased from approximately 260 days for the year ended 31 December 2018 to approximately 269 days for the year ended 31 December 2019.
- Average inventory turnover days decreased from approximately 125 days for the year ended 31 December 2018 to approximately 122 days for the year ended 31 December 2019.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: nil).

Notes:

(i) Gross profit margin were calculated based on gross profit for the year divided by the revenue for the year.

(ii) Average trade and notes payable turnover days were calculated as the average of the beginning and ending of trade and notes receivable balance of the year end divided by the revenue for the year and multiplied by the number of days for the year (365 days for the year ended 31 December 2019 (for the year ended 31 December 2018: 365 days)).

(iii) Average trade and notes payable turnover days were calculated as the average of the beginning and ending of trade and notes payable balance of the year end divided by the cost of sales for the year and multiplied by the number of days for the year (365 days for the year ended 31 December 2019 (for the year ended 31 December 2018: 365 days)).

(iv) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance of the year end divided by the cost of sales for the year and multiplied by the number of days for the year (365 days for the year ended 31 December 2019 (for the year ended 31 December 2018: 365 days)).

CORPORATE INFORMATION

Board of Directors

Executive Director

Mr. Yang Yoong An *(Chairman) (re-designated on 18 February 2019)*

Non-executive Directors

Mr. Feng Bin *(appointed on 18 February 2019)*
Mr. Yang Fan *(appointed on 18 February 2019)*

Independent Non-executive Directors

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

Company Secretary

Mr. Wu Hung Wai *(HKICPA)*

Registered Office

Second Floor, Century Yard, Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

Headquarter and Principal Place of Business in the PRC

No. 6 Qingdao Road
Dongshan Economic Developing District
Yichang, Hubei

Principal Place of Business in Hong Kong

Suite 3212, 32nd Floor, Tower One, Times Square
No. 1 Matheson Street, Causeway Bay
Hong Kong

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Gong Jinjun
Mr. Zeng Shiquan

Remuneration Committee

Mr. Gong Jinjun *(Chairman)*
Mr. Yang Fan *(appointed as a member of the Remuneration Committee on 18 February 2019)*
Mr. Wang Ping

Nomination Committee

Mr. Yang Yoong An *(Chairman)*
(appointed as chairman of the Nomination Committee on 18 February 2019)
Mr. Zeng Shiquan
Mr. Gong Jinjun

Corporate Website

www.jiayaoholdings.com

Authorised Representatives

Mr. Yang Fan *(appointed on 18 February 2019)*
Mr. Wu Hung Wai

Principal Bankers

China Merchants Bank Yichang Branch
Hubei Bank Corporation Yichang Branch

Principal Share Registrar and Transfer Office

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

Legal Adviser as to Hong Kong Laws

Loong & Yeung
Room 1603, 16th Floor, China Building
29 Queen's Road Central
Central, Hong Kong

Auditor

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to present the annual report of the Company for the year ended 31 December 2019.

In 2019, overall market conditions remained challenging. Given the impact from the trade tensions between China and the US and slowing economy in China, tobacco industry went through a tough year. Yet, Chinese government's promotion of the "Healthy China 2030" initiative with continual structural reform in the tobacco industry has caused continual market consolidation. Nevertheless, the Group has always held the belief that foresight and perseverance are essential in times of challenges, and devised effective approaches that grasped market opportunities during the reporting year.

Equipped with enhanced technology solutions, the Group strategically shifted its focus to value-added products through further adjusting its product range into the middle to high-end cigarette packing market. Tremendous efforts were also placed on expanding the Group's business and we have introduced international trading during the year to capture the promising market potential ahead.

With various proactive measures taken, the Group managed to maintain stable business performance during the year. Total revenue of RMB581.3 million was achieved, while the paper cigarette, social product paper packaging and trading business accounted for approximately 94.4%, 2.3% and 3.3% of the revenue respectively. Gross profit was approximately 126.0 million, representing a year-on-year increase of approximately 2.9%. Gross profit margin was approximately 21.7%, increased by approximately 0.1% year-on-year. Profit attributable to owners of the Company decreased by approximately 67.5% to approximately RMB4.2 million.

Over the past year, the Group continued its product development efforts and demonstrated its capacity to meet specific requirements from its customers. Subsequently, various sales agreements regarding the sales of paper cigarette packages were secured. Through capital investments in production complemented by effective benefits to employees, the Group has been able to enhance production efficiency, while at the same time optimize its workforce to achieve its business goals. The Group will continue to achieve structural upgrading of its management model through further enhancing efficiency and product quality management.

The outbreak of coronavirus pandemic (COVID-19) since early 2020 has impeded business activities globally and in China, and has brought about additional uncertainties in the Group's operating environment. In response, the Group has already carried out a careful assessment of the overall impact of the pandemic on its operations and has taken all possible contingency measures to contain such impact. With the lockdown of Hubei Province being lifted starting in April, the business operations of the Group will gradually return to normal scale.

Looking ahead, although the market is expected to remain testing, the Group believes that it has laid a solid business foundation as a result of enormous devotion over the past years, the Group will continue to grasp the opportunities ahead by capitalizing on its outstanding market reputation and product innovation. Additional resources and focus will be allocated on expanding sales and marketing capabilities primarily for strengthening ties and collaboration with existing customers and developing business relationship with potential clients. The Group's growing popularity in middle to high-end cigarettes among Chinese consumers encourages it to establish a stronger foothold in this market segment that appeals to young consumers. Meanwhile, the Group is committed to further exploring new businesses and revenue stream sources, and will expend greater efforts to the development of international trading business so as to fortify market leadership and foster sustainable business development. Jia Yao will seek to advance all areas of its business to ensure higher level of efficiency, cost control and profitability.

I would like to express my gratitude for the continuous support of all our shareholders, investors and customers. The Group's management team and all staff members will continue to strive for better results and maximise returns to the shareholders.

YANG Yoong An
Chairman of the Board and Executive Director

Hong Kong, 29 April 2020

Market Review

During the year, the trade tensions between China and the US invariably impacted the China and global economy. Along with growing financial stress, China's economic growth slowed to 6.1% in 2019, hitting the slowest pace in 30 years. The increasing worries about jobs and incomes from the slowing economy further dampened consumer sentiment and caused Chinese consumers to cut back discretionary spending, thus impacting the tobacco industry.

Meanwhile, Chinese government placed much emphasis on the structural reform of tobacco industry during the year under review with more stringent regulations; radical challenges were presented to the sector. The proposal to implement more tobacco control measures in the "Opinions of the State Council on the implementation of healthy China Action" with the objective to further promote the initiative of "Healthy China 2030" has caused reshuffling of the industry. Research from ASKCI Consultancy has shown that the total number of tobacco enterprises in China in the first three quarters of 2019 declined to 106 with 15% of loss-making companies, hinting the pressure from the reform.

In response to the challenging market condition, the Group has taken aggressive measures and proactively adjusted its product mix to satisfy the dynamic change of consumer's demand and explore new revenue source with the aim to move steadily forward in the grim and complex market.

Business Review

The Group is principally engaged in the design, printing and distribution of paper cigarette packages in China and to a lesser extent, social product paper packages in China. Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges"), the Group's primary subsidiary, has been established in China for over 20 years. The Group provides paper cigarette packaging services for key cigarette brands designated by the State Tobacco Monopoly Administration of China ("STMA"). The Group has also diversified its business to social product paper packages such as medicine, wine, food and other consumer goods by leveraging its extensive experience and know-how in the cigarette packaging industry.

Sales and Distribution

Regarding the paper cigarette packaging segment, the Group believes that its solid and stable business relationship with customers is vital for excelling within the cigarette packages industry. As of 31 December 2019, the Group's clients included major provincial tobacco industrial companies and non-provincial tobacco companies under China Tobacco Industry Development Center* (中國煙草實業發展中心), their operations span across China with production centers located in Hubei, Sichuan, Yunnan, and other provinces.

* *For identification purpose only*

Product Development and Design

The Group will continue to invest in machinery and equipment to upgrade its production plants and ensure the productivity is up to international standards. The management strives to pursue cutting-edge technology in order to reduce production costs while maintaining or even improving product quality.

The Group attaches high importance to product design and technology development, striving to enhance its technological competitiveness by leveraging its design and development capabilities, and continuing to commit resources to the upgrading of product research and development capabilities. During the period under review, the Group carried out regulated operation in strict compliance with the ISO9000 quality system standards. Equipped with state-of-the-art and comprehensive inspection equipment and devices, the Group has formulated a complete institutional system that covers every single process for its products in terms of the flow, standards, record and appraisal for the quality management of imported materials, processes as well as inspection of finished products and product delivery, which in turn assures the continuous enhancement of product quality.

Technology Development and Quality Control

Regarding quality control, the Group pursues perfection, professionalization and standardization by paying close attention to managing and controlling product quality. During the year under review, the Group was engaged in regulated operations in strict compliance with ISO9000 quality system standards. Equipped with state-of-the-art and comprehensive inspection equipment and devices, the Group has formulated a complete institutional system that covers the whole process of production, ensuring continuous enhancement of product quality.

In addition, the Group's product quality and safety control laboratory was accredited by China National Accreditation Service for Conformity Assessment in 2018. Meanwhile, the Group has also refined its quality and surveying management system and obtained accreditation for its G7 printing technology. The Group is resolved to enhance its product quality in response to the demand of customers.

Cost Control

Facing the rising prices of paper packaging raw materials, the Group has adopted effective measures to minimize the impact of fluctuations in their prices. In particular, the Group has negotiated with the top-ranking suppliers each year on the volume of supplies and guaranteed swift payment in exchange for a fixed price for paper materials.

Meanwhile, the Group has also conducted internal evaluation to improve production procedures and materials usage, in hopes of raising production efficiency and shortening product cycle. Ultimately, these measures have allowed the Group to control the production cost per unit.

Financial Review

Revenue

For the year ended 31 December 2019, the revenue of the Group was approximately RMB581.3 million, representing an increase of approximately 2.5% over the same period in 2018, among which revenue from paper cigarette packages segment, social product paper packages segment and trading goods segment accounted for approximately 94.4%, 2.3% and 3.3%, respectively. The Group recorded a steadily increase on revenue during the year.

The following table sets forth the breakdown of the Group's revenue for the year ended 31 December 2019:

	For the year ended 31 December		
	2019	2018	Change (%)
	RMB'000	RMB'000	(approximate)
Paper cigarette packages segment	**548,847**	541,226	+1.4%
Social product paper packages segment	**13,180**	25,900	-49.1%
Trading goods segment	**19,230**	–	N/A

Gross Profit

The Group's gross profit increased by approximately 2.9% from approximately RMB122.5 million for the year ended 31 December 2018 to approximately RMB126.0 million for the year ended 31 December 2019. The Group's gross profit margin increased by approximately 0.1% from approximately 21.6% to approximately 21.7% as compared with the same period in 2018.

Distribution Costs

For the year ended 31 December 2019, distribution costs comprise: (i) delivery expenses for transportation of our products to customers; (ii) staff costs and benefits relating to our Group's sales and marketing personnel; (iii) expenses incurred in customer hospitality activities during our normal course of business; (iv) travelling expenses of our staff incurred for sales and distribution activities; (v) administrative expenses; and (vi) other selling and distribution related expenses. The Group's distribution costs increased by approximately 6.5% from approximately RMB38.8 million for the year ended 31 December 2018 to approximately RMB41.3 million for the year ended 31 December 2019.

Administrative Expenses

For the year ended 31 December 2019, administrative expenses consist of (i) staff costs and benefits relating to our Group's administrative personnel; (ii) travelling expenses of administrative staff; (iii) depreciation expenses arising from daily operation; (iv) entertainment expenses of administrative staff; (v) research and development expenses; (vi) office expenses; (vii) regulatory expenses; and (viii) other expenses incurred in relation to our administrative operations. The expenses increased by approximately 10.2% from approximately RMB59.7 million for the year ended 31 December 2018 to approximately RMB65.8 million for the year ended 31 December 2019. The increase of administrative expenses was mainly due to the increase of research and development expenses by approximately RMB6.0 million during the year.

Other Income

Other income mainly consists of non-recurring government grant, change in fair value of financial liability at fair value through profit or loss and sundry income. The Group's other income decreased by approximately RMB0.8 million to approximately RMB3.1 million during the year.

Other Losses

For the year ended 31 December 2019, other losses was mainly consist of change in fair value of financial liabilities at fair value through profit or loss and loss on disposal of raw material. The Group's other losses increased by approximately RMB7.1 million to approximately RMB9.8 million during the year. The increase of other losses was mainly due to the recognition of fair value loss on convertible notes of approximately RMB4.4 million during the year and the increase of loss on disposal of raw material by approximately RMB3.1 million.

Finance Costs (net)

For the year ended 31 December 2019, net finance costs primarily consist of interest income on bank deposits, interest payments on interest-bearing obligations and bank charges. The net finance costs decreased by approximately 53.2% from approximately RMB4.7 million for the year ended 31 December 2018 to approximately RMB2.2 million for the year ended 31 December 2019. The decrease of net finance costs was mainly due to the decrease of interest on bank borrowings by approximately RMB2.2 million.

Income Tax Expense

The Group's income tax expense decreased by approximately 38.8% from approximately RMB3.9 million for the year ended 31 December 2018 to approximately RMB2.4 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in net profit before tax of the PRC subsidiaries of the Company.

Profit Attributable to Owners of the Company

As a result of the foregoing, the Group's profit attributable to owners of the Company decreased by approximately 67.5% from approximately RMB13.0 million for the year ended 31 December 2018 to approximately RMB4.2 million for the year ended 31 December 2019.

Trade and Other Receivables

Trade and other receivables increased by approximately 14.5% from approximately RMB133.9 million as at 31 December 2018 to approximately RMB153.4 million as at 31 December 2019. The increase was mainly attributable to the net effect of: (i) increase of trade receivables from approximately RMB113.8 million as at 31 December 2018 to approximately RMB133.2 million as at 31 December 2019; and (ii) decrease of payments in advance from approximately RMB5.1 million as at 31 December 2018 to approximately RMB2.2 million as at 31 December 2019.

Trade and Other Payables

Trade and other payables decreased by approximately 15.4% from approximately RMB384.9 million as at 31 December 2018 to approximately RMB325.5 million as at 31 December 2019. The decrease was mainly attributable to the decrease of trade payables from approximately RMB189.4 million as at 31 December 2018 to approximately RMB137.7 million as at 31 December 2019 and decrease of notes payable from approximately RMB175.4 million as at 31 December 2018 to approximately RMB168.0 million as at 31 December 2019.

Liquidity and Financial Resources

The Group recorded net current assets of approximately RMB78.1 million as at 31 December 2019, compared with net current assets of approximately RMB58.0 million as at 31 December 2018. The Group maintained a healthy liquidity position during the year ended 31 December 2019. The Group's operations were principally financed by internal resources and interest-bearing borrowings during the year.

As at 31 December 2019, the Group's cash and cash equivalents, which were held mainly in Renminbi and Hong Kong dollars, were approximately RMB75.9 million, compared with approximately RMB212.5 million as at 31 December 2018.

Borrowings and Gearing Ratio

The Group's interest-bearing borrowings was approximately RMB55.0 million as at 31 December 2019 (as at 31 December 2018: approximately RMB140.8 million). The decrease was mainly due to the repayment of convertible notes during the year. The Group's interest-bearing borrowings were mainly denominated in Renminbi as at 31 December 2019 (as at 31 December 2018: Renminbi and Hong Kong dollars). The Group's interest-bearing borrowings was repayable within 1 year. This ratio is calculated as net debt divided by total capital. The gearing ratios are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total borrowings	**55,000**	140,802
Less: cash and cash equivalents	**(75,899)**	(212,527)
Net debt	**(20,899)**	(71,725)
Total equity	**259,770**	253,474
Total capital	**238,871**	181,749
Gearing ratio (%)	**Not applicable**	Not applicable

It is the policy of the Group to adopt a consistently prudent financial management strategy. Sufficient liquidity is maintained with appropriate levels of borrowings to meet the funding requirements of the Group's investments and operations.

Capital Expenditure

During the year ended 31 December 2019, the Group's total capital expenditure amounted to approximately RMB9.0 million (2018: approximately RMB56.2 million), which was mainly used in purchase of machineries.

Treasury Policies

The Group adopted a prudent strategy towards the treasury and funding policies, and attached high importance to the risk control and transactions directly related to the Group's principal business. Funds, primarily denominated in Renminbi and Hong Kong dollars, are normally placed with banks in short or medium term deposits for working capital of the Group.

Charge of Assets

The Group's assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group (including note payables and borrowings of the Group):

	2019 RMB'000	2018 RMB'000
Land use rights	5,343	1,297
Property, plant and equipment	19,410	30,921
Trade receivables	73,311	–
Restricted cash	84,300	86,121
	182,364	118,339

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

There are no significant investments, material acquisition and disposal of subsidiaries, associates and joint ventures by the Group for the year ended 31 December 2019 (2018: nil).

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities (as at 31 December 2018: nil).

Foreign Exchange Risks

The Group's transactions were mainly conducted in RMB, the functional currency of the Group, and the major receivables and payables are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash, other receivables and other payables maintained in Hong Kong Dollars. The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2019.

Human Resources and Remuneration

As at 31 December 2019, the Group employed 570 employees (as compared with 850 employees as at 31 December 2018) with total staff cost of approximately RMB69.6 million incurred for the year ended 31 December 2019 (as compared with approximately RMB86.8 million for the year ended 31 December 2018). The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Placing of Convertible Notes

On 15 September 2017, the Company entered into the placing agreement (the "Placing Agreement") with First Shanghai Securities Limited (the "Placing Agent") pursuant to which the Company conditionally agreed to issue, and the Placing Agent conditionally agreed to procure placees (the "Placees" and each a "Placee"), on a best efforts basis, to subscribe for convertible notes with the principal amount of up to HKD120,000,000 (the "Convertible Notes") at a consideration equal to the aggregate principal amount of the Convertible Notes, and at the initial conversion price of HKD2.00 to HKD2.10 per Share (the "Placing"). The initial conversion price was subsequently agreed by the Company and the Placing Agent to be HKD2.025 per Share pursuant to the Placing Agreement (the "Conversion Price").

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

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

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

Completion of the placing of Convertible Notes took place on 18 October 2017 pursuant to which the Convertible Notes in the principal amount of HKD120,000,000 were issued to not less than six Placees. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each Placee and its ultimate beneficial owners is Independent Third Parties. The net proceeds from the Placing, after the deduction of related expenses, were approximately HKD117.0 million. The net proceeds from the Placing were intended to be used as to approximately not more than 20% for general working capital of the Group, and as to approximately not less than 80% for the Group's development purposes in order to expand into new areas including asset management and hospitality related businesses. Further details of the placing of the Convertible Notes are as set out in the announcements of the Company dated 17 September 2017, 26 September 2017, 4 October 2017 and 18 October 2017.

As disclosed in the announcement of the Company dated 23 April 2019, the net proceeds from the placing of the Convertible Notes of approximately HKD17.3 million had been applied by the Group as general working capital of the Group as of 23 April 2019. The remaining proceeds in the amount of approximately HKD99.7 million remain unutilised (the "Unutilised Proceeds") as of 23 April 2019. In light of the contemplated expansion into new business area of trading and related investment, the Board has resolved to reallocate the use of the Unutilised Proceeds such that approximately 80% of which would be used for expansion into new business area of trading and related investment while the remaining 20% would continue to be used for general working capital of the Group.

The Convertible Notes matured on 17 October 2019. The Company has redeemed all the Convertible Notes in the total amount of HKD120,000,000.

Adequacy of Public Float

Immediately after the close of the mandatory unconditional cash offers made by First Shanghai Securities Limited for and on behalf of Spearhead Leader Limited on 15 February 2019, the public held 66,034,000 Shares, representing approximately 22.01% of the entire issued share capital of the Company. As such, the Company could not satisfy the minimum public float requirement of 25% as set out under Rules 8.08(1)(a) and 13.32 of the Listing Rules.

The Company therefore made an application to the Stock Exchange for a temporary waiver from strict compliance with Rules 8.08(1)(a) and 13.32 of the Listing Rules and the waiver was granted by the Stock Exchange on 1 March 2019 for the period commencing from 15 February 2019 to 17 April 2019.

The Company was informed by Spearhead Leader Limited that it had disposed 8,966,000 Shares, representing approximately 2.99% of the total issued share capital of the Company to independent third parties through a placing agent on 12 April 2019. Following completion of the disposal, 75,000,000 shares of the Company, representing approximately 25% of the total issued share capital of the Company, were held by the public and minimum public float of the Company of 25% of the total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules has been restored. Further details of the restoration of public float is set out in the announcement of the Company dated 12 April 2019.

Same for the above period, based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Group maintained adequate public float throughout the year ended 31 December 2019.

Future Outlook

Although China and the United States have signed off phase-one of trade deal in early 2020, the global and China economies are expected to remain challenging in near term given intensifying social unrest in several countries, weather-related disasters, and the spread of the coronavirus pandemic (COVID-19) in the first quarter of 2020 have posted new challenges to recovery. Meanwhile, the China tobacco industry continues deepen structural reform, by establishing green supply chains which enforce a higher environmental standard, enhancing brand promotions, and adjusting product structures to propel middle to high-end cigarette consumption.

The impact of the COVID-19 outbreak has impeded business activities globally and in China, and has brought about additional uncertainties in the Group's operating environment. As far as the Group's businesses are concerned, the outbreak has so far caused operational delays. While the situation remains fluid at this stage, the pandemic is likely to unleash wide-ranging havocs to China and the world. In view of this, the Group has already carried out a careful assessment of the overall impact of the pandemic on its operations and has taken all possible contingency measures to contain such impact. On a positive note, Chinese government has announced the lockdown lift in Hubei province starting early April and the Group's business is expected to resume in full. The Group expects that the pandemic is unlikely to wane for some time and makes it difficult to predict the impacts of the outbreak for the time being. To mitigate the potential financial hits of this challenging situation, the Group has also taken a number of cost control initiatives and it will closely monitor the development so as to make corresponding adjustments in business strategies.

Fully aware of the volatility in the outlook, the Group will be extra vigilant and will devote tremendous efforts in product development and shift its product mix towards middle to high-end cigarette packages, turning them into a major source of revenue and to protect profitability. The Group will continue to exert its competitive edge in design, printing and sales and consolidate its leading position in the tobacco industry.

The Group will also keep a close eye on the rapidly changing market conditions, and proactively cope with the changes in and updates of Chinese government's policies and regulations on tobacco control, and will strive to achieve structural upgrading of the management model through enhancing efficiency and product quality management. The Group will continue to explore the possibility of cooperating with potential brands and strive to develop new products in order to attract young consumers so as to maintain the Group's leading role within the industry.

In addition, the Group will continually devise effective business strategies, and explore more opportunities from different areas includes but not limited to the cigarette industry as well as international trading services. The Group is confident that, with the management and entire staff working closely together, Jia Yao will maintain its market leadership and create long-term value for shareholders.

Executive Director

Mr. Yang Yoong An (楊詠安) (formerly known as **Yang An (楊安)**), aged 57, was first appointed as a Director on 5 August 2013, and was redesignated as our executive Director from 24 March 2014 to 17 March 2017, as a non-executive Director from 17 March 2017 to 18 February 2019, and as an executive Director since 18 February 2019. Mr. Yang was the Chairman of our Company up to 17 March 2017 and has been the Chairman of our Company again since 18 February 2019. Mr. Yang is primarily responsible for overall management and formulation of business strategy of our Group.

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

With the acquisition of the equity interests in Hubei Golden Three Gorges in 2001, Mr. Yang developed the business of production of cigarette packages in the PRC. In 2010, Mr. Yang became the chairman of Hubei Golden Three Gorges and he has been responsible for the overall day to day management of Hubei Golden Three Gorges.

Since 2012, Mr. Yang Yoong An has been the vice president of the Hubei Province Guangdong Chamber of Commerce (湖北省廣東商會). Mr. Yang Yoong An has brought over 10 years of extensive business and management experience in commercial business to the management team of the Company. He currently serves as a director of the subsidiaries of the Company including Giant Harmony Limited, Park Linker Limited, King Gather Limited, Easy Creator Limited, Hubei Golden Three Gorges and 當陽金三峽聯通印務有限公司 (Dangyang Liantong Printing Industry Co., Ltd.*) ("Dangyang Liantong"), and the legal representative of Hubei Golden Three Gorges and Dangyang Liantong. Mr. Yang Yoong An is the father of Mr. Yang Fan, a non-executive Director of the Company.

As at the date of this annual report, Mr. Yang is the beneficial owner of the entire issued capital of Spearhead Leader Limited, which in turn holds 209,362,000 shares representing approximately 69.79% of the issued share capital of the Company.

Non-executive Directors

Mr. Feng Bin (豐斌), aged 49, was appointed as an executive Director of the Company on 24 March 2014 and resigned on 17 March 2017. On 18 February 2019, Mr. Feng Bin was appointed as a non-executive Director of the Company. Mr. Feng Bin is primarily responsible for overseeing the general corporate, financial and compliance affairs of the Group.

Mr. Feng Bin graduated from the Southwestern University of Finance and Economics (西南財經大學) majoring in accounting in June 1992 through higher education self-taught examination. An accountant qualification was conferred on him by Ministry of Finance of the PRC in October 1994. In June 2008, Mr. Feng obtained a self-study undergraduate certificate (Adult Higher Education) in accounting from the Zhongnan University of Economics and Law (中南財經政法大學). In January 2011, Mr. Feng obtained a part-time master degree (professional degree) in executive management business administration from the Tsinghua University (清華大學). Mr. Feng has more than 15 years of experience in the cigarette packaging trading field. From August 1987 to December 1989, Mr. Feng worked at 四川省德昌縣王所鄉政府 (Dechang Wangsuo Township Government*). From December 1989 to July 2002, Mr. Feng worked at 中共德昌縣委辦公室 (Committee Office of Dechang County*), during which Mr. Feng was attached to work at 四川省德昌縣菸葉複烤廠 (Sichuan Dechang Tobacco Redrying Factory*) as a factory manager from June 1996 to February 2001. From October 2005 to June 2008, Mr. Feng served as deputy general manager of 成都今辰科技發展有限公司 (Chengdu Jinchen Sci-Tech. Development Co., Ltd.*). Mr. Feng joined Hubei Golden Three Gorges in March 2001 and was appointed as the chief financial officer and was the deputy general manager when he left Hubei Golden Three Gorges in 2005. Mr. Feng re-joined Hubei Golden Three Gorges in July 2008 as the deputy general manager and has been the general manager of Hubei Golden Three Gorges from February 2012 to December 2016.

* *For identification purpose only*

As at the date of this annual report, Mr. Feng Bin is the beneficial owner of the entire issued capital of Star Glide Limited, which in turn holds 15,638,000 shares, representing approximately 5.21% of the issued share capital of the Company.

Mr. Yang Fan (楊帆), aged 33, was appointed as a non-executive Director of the Company on 24 March 2014 and resigned on 17 March 2017. On 18 February 2019, Mr. Yang Fan was appointed as a non-executive Director of the Company. Mr. Yang Fan is primarily responsible for overseeing the general corporate, financial and compliance affairs of the Group.

Mr. Yang Fan obtained a Bachelor of Arts degree in economics from the University of Cambridge in June 2012. In August 2013, he obtained a Master of Science degree in financial economics from the University of Oxford.

Mr. Yang Fan is the son of Mr. Yang Yoong An, the executive director of the Company. He is a director of Hubei Golden Three Gorges and a non-executive director of Tian Yuan Group Holdings Limited (Stock Code: 6119).

Independent non-executive Directors

Mr. Gong Jinjun (龔進軍), aged 63, was appointed as an independent non-executive Director on 5 June 2014, a member of the audit committee on 17 March 2017, the chairman of the remuneration committee and a member of the nomination committee on 6 June 2014. Mr. Gong is primarily responsible for overseeing the management independently.

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

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

Mr. Zeng Shiquan (曾石泉), aged 72, was appointed as an independent non-executive Director on 5 June 2014 and a member of the audit and nomination committees on 5 June 2014. Mr. Zeng is primarily responsible for overseeing the management independently.

Mr. Zeng graduated from the department of economics of Wuhan University (武漢大學) in July 1970. He graduated from Sun Yat-sen University (中山大學) as a postgraduate in political economy in December 1981. He was accredited as a senior economist by 深圳市職稱改革領導小組 (Shenzhen City Job Title Reform Leadership Unit*) in February 1993. Mr. Zeng passed the Training Course for Independent Directors of Listed Companies (上市公司獨立董事培訓班) jointly held by The Securities Association of China (中國證券業協會) and the School of Management, Fudan University (復旦大學管理學院) in July 2003.

* *For identification purpose only*

From November 2013 to July 2017, Mr. Zeng has been appointed as an independent director of Shenzhen Kedali Industry Co., Ltd. (深圳市科達利實業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (Shenzhen Exchange stock code: 002850). From June 2013 to May 2015, Mr. Zeng was appointed as an independent non-executive director of Beijing Enterprises Clean Energy Group Limited (北控清潔能源集團有限公司) (formerly known as Jin Cai Holdings Company Limited (金彩控股有限公司)), whose shares are listed on the Main Board of the Stock Exchange (Stock code: 01250). From January 2016 to February 2016, Mr. Zeng was appointed as an independent non-executive director of Aurum Pacific (China) Group Limited (奧栢中國集團有限公司)) whose shares are listed on GEM of the Stock Exchange (Stock code: 08148). Mr. Zeng has been appointed as an independent non-executive Director of StarGlory Holdings Company Limited (榮暉控股有限公司) (formerly known as New Wisdom Holding Company Limited (新智控股有限公司)), shares of which are listed on the GEM of the Stock Exchange (stock code: 08213).

Mr. Wang Ping (王平), aged 49, was appointed as our independent non-executive Director on 5 June 2014, the chairman of the audit committee and a member of the remuneration committee on 6 June 2014. Mr. Wang is primarily responsible for overseeing the management independently.

Mr. Wang studied at Nanjing University (南京大學) and received a self-study undergraduate diploma in economic management in December 1993. Mr. Wang obtained a master degree in Business Administration from Sun Yat-Sen University (中山大學) in June 2004. He is a fellow non-practising member of the Chinese Institute of Certified Public Accountants and has over 20 years of experience in corporate finance, audit, accounting and taxation.

Mr. Wang worked at Deloitte Touche Tohmatsu CPA Ltd from September 1999 to August 2002 where he joined as a senior accountant and was later promoted to manager at the audit department. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited (中國稽山控股有限公司), the shares of which are listed on the main board of Singapore Stock Exchange, as the chief financial officer. Mr. Wang worked for EV Capital Pte Ltd. (萬嘉資本私人有限公司) from May 2007 to March 2010 as the vice president. In December 2010, Mr. Wang joined Guang Da (China) Automotive Components Holdings Limited (光大(中國)車輛零部件控股有限公司), a subsidiary of China Vehicle Components Technology Holdings Limited as a senior vice president. Mr. Wang was an executive director and chief financial officer of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 01269) from April 2014 to December 2015 and from March 2012 to December 2015, respectively.

Mr. Wang has been appointed as an independent non-executive director of following companies whose shares are listed on the Main Board of the Hong Kong Stock Exchange: (a) China Hanking Holdings Limited (Stock code: 03788) since February 2011; (b) China Tianrui Group Cement Company Limited (Stock code: 01252) since December 2012; and (c) China Sinostar Group Limited (華星集團有限公司) (formerly known as Shihua Development Company Limited (實華發展有限公司)) (Stock code: 00485) since July 2014.

Further, Mr. Wang was or has been appointed as an independent non-executive director of following companies whose shares are listed on the Shenzhen Stock Exchange: (a) Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (Shenzhen Exchange stock code: 002378) from November 2010 to May 2017; (b) Shenzhen Fuanna Bedding and Furnishing Co. Ltd. (深圳市富安娜家居用品股份有限公司) (Shenzhen Exchange stock code: 002327) from December 2013 to September 2017; (c) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) from March 2016 to August 2017; and (d) Shenzhen Zowee Technology Co., Ltd (深圳市卓翼科技股份有限公司) (Shenzhen Exchange stock code: 002369) from July 2016 to January 2020; and (e) Yunan Energy New Material Co,. Ltd. (雲南恩捷新材料股份有限公司) (Shenzhen Exchange stock code: 002812) from April 2017 to April 2020. Mr. Wang also has been appointed as non-executive director of following companies whose shares are listed on the Shenzhen Stock Exchange: (a) Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (Shenzhen Exchange stock code: 002378) from May 2017 to May 2020; (b) Sichuan CRUN Co., Ltd (四川川潤股份有限公司) (Shenzhen Exchange stock code: 002272) from August 2017 to March 2019; and (c) Bojun Education Company Limited (博駿教育有限公司) (Stock code: 01758) from September 2016 to September 2019.

Senior Management

Ms. Song Chun (宋春), aged 51, has been the deputy general manager of Hubei Golden Three Gorges since 18 November 2010 and is responsible for the design, research and development for technology and products. Ms. Song graduated from Guizhou Academy of Arts (貴州藝術專科學校) majoring in arts in July 1993. Ms. Song has over 14 years of experience in design, printing and packaging industry. Before joining our Group, Ms. Song worked as a designer at Shenzhen Jinjia Color Printing Group Co., Ltd. (深圳勁嘉彩印集團股份有限公司) (Shenzhen Exchange stock code: 002191), shares of which are listed on the Shenzhen Stock Exchange, from November 2000 to July 2002. She then joined our Group as a designer from July 2002 until she left our Group to join Shenzhen Jinjia Color Printing Group Co., Ltd. as vice technical director in January 2008. In April 2009, Ms. Song rejoined our Group as the deputy general manager. She was accredited as 全國十佳優秀煙標設計師 (National Top Ten Cigarette Package Designer*) by 中國煙草學會 (China Tobacco Society*) and 中國收藏家協會 (China Association of Collectors*) in 2006.

Mr. Li Shaoan (李少安), aged 47, is the finance director of Hubei Golden Three Gorges since 17 May 2013 and is responsible for overall financial management. Mr. Li graduated from Hubei College of Finance and Economics (湖北財經高等專科學校, formerly known as 中南財經大學湖北財政分校) majoring in taxation in July 1994. Mr. Li completed the Global Capital Operation Programme held by School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in December 2008. In July 2009, Mr. Li obtained a graduation certificate in accounting from Dongbei University of Finance and Economics (東北財經大學) through online course. Mr. Li became a PRC certified tax agent in November 2008 and a non-practising member of Hubei Institute of Certified Public Accountants (湖北省註冊會計師協會) in December 2009. Mr. Li has over 10 years of experience in the printing industry. Before joining our Group, Mr. Li worked at the finance department of Yichang Xiarun Cooperation Co. Ltd. (宜昌峽潤合作有限公司) from October 1998 to June 2004. Mr. Li held a number of positions at Hubei Golden Three Gorges including the finance manager and deputy finance director from July 2004 to May 2013.

Mr. Wu Hung Wai (吳鴻偉), aged 38, has been the chief financial officer and company secretary of our Company since June 2014, responsible for compliance and financial management of the Group. Mr. Wu obtained a bachelor degree in business from the University of Technology, Sydney in October 2003. Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants. He worked in PKF Hong Kong from April 2005 to July 2010 and his last position in PKF Hong Kong was senior supervisor. From October 2010 to January 2013, Mr. Wu worked at Ernst & Young as senior accountant. From August 2013 to February 2014, he worked at Aussco Hong Kong Limited as finance manager. Mr. Wu has over 10 years of experience in auditing, accounting and financial reporting.

* *For identification purpose only*

Overview

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The corporate governance duties of the Board have been set out in the terms of reference of the Board on corporate governance functions which are available on the website of the Company. We have complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Board considered that the Company had complied with all the applicable code provisions of the Code for the year ended 31 December 2019.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2019.

Event After the year ended 31 December 2019

Following the outbreak of coronavirus pandemic (COVID-19) in early 2020, the operation of Hubei Golden Three Gorges was suspended on 23 January 2020 as part of the Chinese government's countermeasures in containing the COVID-19 outbreak.

At this point in time, Hubei Golden Three Gorges has gradually resumed its operation starting from the mid-March 2020. However, the Group is not yet able to quantify the full financial impact. In the case of a prolonged coronavirus crisis, there may be a negative effect on the Group's 2020 financial results.

The Board of Directors

As at the date of this annual report, the Board consists of six Directors, comprising one executive Director, two non-executive Directors and three independent non-executive Directors. The following table sets forth certain information relating to our Directors during the reporting period and up to the date of this annual report:

Name	Age	Position	Date of appointment as Director	Date of resignation/ redesignation	Roles and responsibilities	Relationship with the other Directors
Executive Director						
Mr. Yang Yoong An (楊詠安) *(Note 1)*	57	Chairman and executive Director	N/A	Re-designated as executive Director on 18 February 2019	Serves on the nomination committee; overall management and formulation of business strategy of our Group	Father of Mr. Yang Fan
Non-executive Directors						
Mr. Feng Bin (豐斌) *(Note 2)*	49	Non-executive Director	18 February 2019	N/A	Overseeing the general corporate, financial and compliance affairs of the Group	N/A
Mr. Yang Fan (楊帆) *(Note 2)*	33	Non-executive Director	18 February 2019	N/A	Serves on the remuneration committee; overseeing the general corporate, financial and compliance affairs of the Group	Son of Mr. Yang Yoong An
Independent non-executive Directors						
Mr. Gong Jinjun (龔進軍)	63	Independent non-executive Director	5 June 2014	N/A	Serves on the audit, remuneration and nomination committees; responsible for overseeing the management independently	N/A
Mr. Zeng Shiquan (曾石泉)	72	Independent non-executive Director	5 June 2014	N/A	Serves on the audit and nomination committees; responsible for overseeing the management independently	N/A
Mr. Wang Ping (王平)	49	Independent non-executive Director	5 June 2014	N/A	Serves on the audit and remuneration committees; responsible for overseeing the management independently	N/A

Notes:

1. Mr. Yang Yoong An redesignated from a non-executive Director to an executive Director, and appointed as the chairman of the Company with effect from 18 February 2019.

2. Mr. Yang Fan and Mr. Feng Bin were appointed as non-executive Directors of the Company with effect from 18 February 2019.

The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this annual report. Mr. Yang Fan is the son of Mr. Yang Yoong An, save as disclosed above, there are no relationship (including financial, business, family or other material/relevant relationship(s)) among members of the Board.

The term of appointment of the non-executive Director is three years commencing from his date of appointment and thereafter maybe extended for such period as the Company and he agrees in writing.

Mr. Yang Yoong An and Mr. Zeng Shiquan will retire from office as Directors at the forthcoming annual general meeting of the Company to be held on 19 June 2020, being eligible, offer themselves for re-election pursuant to the articles of association of the Company (the "Articles of Association").

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

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

The Board is responsible for performing the corporate governance functions set out in code provision D.3.1 of the Code. As at the date of this annual report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Code disclosures requirements.

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

Continuous Professional Development

Newly appointed Directors will receive a comprehensive, formal and tailored induction on the first occasion of their appointment so as to ensure that they have appropriate understanding of the business of the Company and the obligation and responsibility of being a director. Directors' training is an ongoing process. During the Year, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expenses.

Below is a summary of the training the Directors had received during the year under review:

Name of Directors	Type of trainings
Mr. Yang Yoong An	A & B
Mr. Feng Bin (appointed on 18 February 2019)	A & B
Mr. Yang Fan (appointed on 18 February 2019)	A & B
Mr. Zeng Shiquan	A & B
Mr. Gong Jinjun	A & B
Mr. Wang Ping	A & B
Mr. Li Tie (resigned on 18 February 2019)	N/A
Mr. Liu Daoqi (resigned on 18 February 2019)	N/A
Mr. Huang Erwei (resigned on 18 February 2019)	N/A

A: attending seminars/workshops/forums

B: reading newspapers, journals and updates relating to the economy, tobacco industry or director's duties and responsibilities etc.

Board Meetings

15 Board meetings were held during the year ended 31 December 2019. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as the operation and financial performance of the Group. Notice of Board meeting was sent to all Directors at least 14 days prior to a regular Board meeting. Reasonable notices will be given to the Directors for ad-hoc Board meetings. Directors may participate either in person or through electronic means of communications.

All relevant materials were sent to all the Directors relating to the matters brought before the meetings. All the Directors have been provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings.

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

	Attendance/Board meetings held during the year ended 31 December 2019
Mr. Yang Yoong An	15/15
Mr. Feng Bin (appointed on 18 February 2019)	12/12
Mr. Yang Fan (appointed on 18 February 2019)	12/12
Mr. Zeng Shiquan	15/15
Mr. Gong Jinjun	15/15
Mr. Wang Ping	15/15
Mr. Li Tie (resigned on 18 February 2019)	3/3
Mr. Liu Daoqi (resigned on 18 February 2019)	3/3
Mr. Huang Erwei (resigned on 18 February 2019)	3/3

One general meeting, being the annual general meeting was held during the year ended 31 December 2019. The members and attendance of the general meeting are as follows:

	Attendance/General meeting held during the year ended 31 December 2019
Mr. Yang Yoong An	1/1
Mr. Feng Bin (appointed on 18 February 2019)	1/1
Mr. Yang Fan (appointed on 18 February 2019)	1/1
Mr. Zeng Shiquan	1/1
Mr. Gong Jinjun	1/1
Mr. Wang Ping	1/1
Mr. Li Tie (resigned on 18 February 2019)	N/A
Mr. Liu Daoqi (resigned on 18 February 2019)	N/A
Mr. Huang Erwei (resigned on 18 February 2019)	N/A

The forthcoming annual general meeting will be held on 19 June 2020.

Directors' Service Contract

The executive Director has entered into a service agreement with the Company for a term of three years commencing from 18 February 2019, subject to the termination provision therein. The executive Director or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from 18 February 2019, subject to the termination provision therein. Each of the non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the independent non-executive Directors has renewed the service agreement with the Company as an independent non-executive Director for a term commencing on 19 June 2019 and ending on the conclusion of the 2019 annual general meeting of the Company to be held in 2020. Each of the independent non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

No Director has entered into any service agreement with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Remuneration of Directors and Senior Management

Particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in Note 10 and Note 33 to the consolidated financial statements in this annual report.

Board Committees

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

Audit Committee

The Company has established the Audit Committee on 6 June 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. As at the date of this annual report, the Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Gong Jinjun. The primary duties of the Audit Committee are, inter alia, to assist the Board in providing an independent view of the effectiveness of the financial reporting system, internal control procedures and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

During the year ended 31 December 2019, the Audit Committee mainly performed the following duties:

— reviewed the Group's audited final results for the year ended 31 December 2018, unaudited interim results for the six months ended 30 June 2019, met with the external auditors to discuss such results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

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

During the year ended 31 December 2019, two meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meeting of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee meeting(s)
Mr. Wang Ping	2/2
Mr. Gong Jinjun	2/2
Mr. Zeng Shiquan	2/2

There had been no disagreement between the Board and the Audit Committee during the year ended 31 December 2019.

Remuneration Committee

The Company has established the Remuneration Committee on 6 June 2014 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. As at the date of this annual report, the Remuneration Committee consists of two independent non-executive Directors, namely Mr. Gong Jinjun (as Chairman) and Mr. Wang Ping, and one non-executive Director, namely Mr. Yang Fan (who replaced Mr. Liu Daoqi with effect from 18 February 2019). The primary duties of the Remuneration Committee are, inter alia, (1) to determine the remuneration policy of all Directors, to assess the performance of the Directors, to approve the terms of service contracts of the Directors, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, to make recommendations to the Board on the remuneration of the non-executive Director(s), (2) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure they are consistent with relevant contractual terms and are otherwise reasonable and appropriate, (3) to review and approve compensation payable to executive Director and senior management for any loss or termination of office or appointment to ensure that it is consistent with contracted terms and is otherwise fair and not excessive, and (4) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31 December 2019, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee is set out below:

Name of Director	Attendance/ Number of Remuneration Committee meeting(s)
Mr. Gong Jinjun	1/1
Mr. Wang Ping	1/1
Mr. Yang Fan (appointed as a member of the Remuneration Committee on 18 February 2019)	1/1
Mr. Liu Daoqi (resigned on 18 February 2019)	N/A

During the year ended 31 December 2019, the Remuneration Committee mainly performed works including reviewing and making recommendation to the Board regarding of the Directors' remuneration for the year ending 31 December 2019 and assessing performance of executive directors.

There had been no disagreement between the Board and the Remuneration Committee during the year ended 31 December 2019.

Nomination Committee

The Company has established the Nomination Committee on 6 June 2014 with written terms of reference in compliance with paragraph A.5 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. As at the date of this annual report, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Zeng Shiquan and Mr. Gong Jinjun, and one executive Director, Mr. Yang Yoong An (as Chairman) (who replace Mr. Li Tie with effect from 18 February 2019). The primary functions of the nomination committee are, inter alia, to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on the appointment or re-appointment of Directors in particular the chairman and the chief executive officer and succession planning for Directors.

During the year ended 31 December 2019, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee is set out below:

Name of Director	Attendance/ Number of Nomination Committee meeting(s)
Mr. Yang Yoong An (appointed as chairman of the Nomination Committee on 18 February 2019)	1/1
Mr. Zeng Shiquan	1/1
Mr. Gong Jinjun	1/1
Mr. Li Tie (resigned as chairman of the Nomination Committee on 18 February 2019)	N/A

There had been no disagreement between the Board and the Nomination Committee during the year ended 31 December 2019. During the year ended 31 December 2019, the Nomination Committee mainly performed works including:

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

— assessed the independence of independent non-executive Directors;

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

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

Board Diversity Policy

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

Nomination Policy

The objectives of the Policy are to provide formal, clear and transparent procedures, process and criteria for the Nomination Committee to nominate and recommend a suitable candidate to the Board of the Company either to fill a causal vacancy or as an addition to the Board; or stand for election by shareholders at the general meetings of the Company and to ensure the Board has a balance of skill, experience and diversity of perspectives appropriate to the requirements of the Company's businesses.

The Board is responsible for approving the Policy and any subsequent changes proposed to be made thereto. Nomination Committee is responsible for monitoring and reviewing the Policy and recommend any changes thereto to the Board for its adoption as and when necessary in order to ensure that the Policy remains relevant to the Company's needs and reflects both current regulatory requirements and good corporate governance practice. The ultimate responsibility for selection and appointment of directors rests with the Board.

Nomination Committee and the Board may consider the following factors, which are neither exhaustive nor decisive, when assessing the suitability of a proposed candidate: (1) personal ethics, reputation and integrity; (2) professional qualifications, skills, knowledge and experience that are relevant to the Company's businesses and corporate development and strategy; (3) willingness and ability to devote adequate time to discharge the duties as a director and to make required commitments; (4) the "Board Diversity Policy" adopted by the Company for achieving diversity on the Board with reference to the Company's business model and specific needs, including but not limited to gender, age, educational background and work–profile; and (5) applicable legal and regulatory requirements.

For filling a causal vacancy or appointing an additional director to the Board in accordance with the Articles of Association of the Company, Nomination Committee shall make recommendation for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, Nomination Committee shall make recommendation to the Board for consideration and approval. Shareholder(s) may nominate a candidate to stand for election as a director at a general meeting. The nomination proposal should include the candidate's biographical information and other information as required to be disclosed under the Listing Rules and the candidate's signed written consent to be appointed as a director and to the publication of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director. If considered necessary, Nomination Committee may request the candidate to provide additional information and documents. Nomination Committee shall consider the nomination proposal, evaluate such candidate based on the selection criteria and review the structure, size and diversity of the Board to determine whether such candidate is suitable for recommending to the Board. A circular with the candidate information such as the name, brief biography (including qualifications and relevant experience), proposed remuneration, independence and any other information, as required pursuant to the applicable laws, rules and regulations will be provided to shareholders before the general meeting and within the prescribed period as required under Listing Rules. The Board shall have the final decision on all matters relating to the recommendation of a candidate to stand for election at a general meeting.

Dividend Policy

This policy aims to provide shareholders of the Company with stable dividends and sets out the guidelines for the Board of the Company to determine whether dividends are to be declared and paid, and the level of dividend to be paid to the shareholders of the Company.

It is the policy of the Company to allow its shareholders to participate in the Company's profits whilst to retain adequate reserves for future growth. Normally, the Company pays dividends twice a year, which are the interim dividend and final dividend. The Board may declare special dividends in addition to such dividends as it considers appropriate.

In determining the frequency, amount and form of any dividend in any financial year/period, the Board shall consider the following factors: (1) the actual and expected financial results of the Company and its subsidiaries (the "Group"); (2) economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group; (3) the Group's business strategies, including future cash commitments and investment needs to sustain the long — term growth aspect of the business; (4) the current and future operations, liquidity position and capital requirements of the Group; and (5) any other factors that the Board deems appropriate. The dividend payout ratio will vary from year to year. There is no assurance that dividends will be paid in any particular amount for any given period.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with accounting principles generally accepted in Hong Kong. The statement by the auditors of the Company about their responsibilities for the financial statements is set out in the independent auditor's report contained in this annual report.

External Auditor's Remuneration

The Company engaged PricewaterhouseCoopers as its external auditor for the year ended 31 December 2019. The Audit Committee has been notified of the nature and the service charges of non-audit services for reviewing interim results to be performed by PricewaterhouseCoopers and considered that these non-audit services have no adverse effect on the independence of the auditor. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. Details of the fees paid/payable to PricewaterhouseCoopers during the year are as follows:

	RMB
Audit services	1,000,000
Non-audit services	300,000
	1,300,000

Risk Management and Internal Controls

The Board is responsible for the risk management and internal control of the Group and for reviewing their effectiveness. Procedures have been designed to ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, ensure compliance of applicable laws, rules and regulations. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management of the Group maintains and monitors the risk management and internal control systems on an ongoing basis. The Board has conducted a review of the effectiveness of the risk management and internal control system of the Group and is satisfied that the Group has fully complied with the Code in respect of risk management and internal controls during the year ended 31 December 2019.

The procedures of the Group's risk management and internal control systems are as follows:

For risk management:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

For internal control:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-today controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

Regarding the code provision on internal audit function which took effect in January 2016, the Company has internal audit function which has been revised and monitored by the Audit Committee as to its effectiveness during the Year.

The Company has its inside information policy and dissemination procedure has regularly reminded its Directors and employees about due compliance with all policies regarding the inside information. Pursuant to the relevant procedures, after an employee is aware of any information which may constitute an inside information, he/she should report to his/her department head or the management of the Group. Upon the Directors and management of the Group having confirmed such information is an inside information, they shall ensure such inside information be kept confidential until the disclosure of such information is appropriately approved, and the dissemination of such information should be efficiently and consistently made. The Company keeps its Directors and employees appraised of the latest regulatory updates in order to ensure the compliance with the regulatory requirements.

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

Company Secretary

The company secretary of the Company is Mr. Wu Hung Wai, whose biography details are set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

Mr. Wu Hung Wai has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2019.

Constitutional Documents

There had been no change in the constitutional documents of the Company during the year ended 31 December 2019.

Procedures by which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Suite 3212, 32nd floor, Tower One, Times Square, no. 1 Matheson Street, Causeway Bay, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Procedures for Convening General Meetings by Shareholders

Pursuant to Article 64 of the Articles of Association, the Board may whenever it thinks fit call extraordinary general meetings. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company by mail at Suite 3212, 32nd floor, Tower One, Times Square, no. 1 Matheson Street, Causeway Bay, Hong Kong for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Putting Forward Proposals at Shareholders' Meeting

Shareholders are requested to follow Article 64 of the Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Procedures for convening general meetings by shareholders".

Pursuant to Article 113 of the Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The Group is one of the major active participators in the design, printing and sales of paper cigarette packages and social product paper packages in the PRC. The principal operating subsidiary, Hubei Golden Three Gorges, has been established in the PRC for over two decades. The Group has accumulated over 20 years of experience in the industry and established strong business relationship with the major customers. The factories have established a set of internal practices of quality, environmental and occupational health and safety comprehensive management, which cover many different aspects including but not limited to workplace practices, environmental protection etc., of which, the following are the most relevant and important to our business:

Workplace Conditions

The Group established and implemented "Staff Handbook", which contains the policies relating to human resources, covering areas such as compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity and other benefits and welfare. Basically, every rule in the handbook is set in accordance with all relevant laws and regulations including but not limited to the "Labour Law" and the "Labour Contract Law" in the PRC. The Group strictly complied with the above said relevant standards, rules and regulations throughout the year ended 31 December 2019.

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

As at 31 December 2019

	By age group					By geographical region of employees' hometown		
Total number of employees	**Aged 18–25**	**Aged 26–35**	**Aged 36–45**	**Aged over 46**	**Total**	**Hubei Province**	**Outside Hubei Province**	**Total**
570	**43**	**188**	**183**	**156**	**570**	**512**	**58**	**570**

As at 31 December 2018

	By age group					By geographical region of employees' hometown		
Total number of employees	Aged 18–25	Aged 26–35	Aged 36–45	Aged over 46	Total	Hubei Province	Outside Hubei Province	Total
850	79	268	320	183	850	784	66	850

We are always committed to building a relationship with our employees based on mutual respect. In strict compliance with the requirement of the Labour Law, the Group employs individuals of above 18 years of age with valid identity document issued by the public security department. Recruitment process of subsidiaries of the Group is based on a fair, open and voluntary manner. Each subsidiary enters into legal labour contracts and prohibits forced labour. We have put in place stringent and comprehensive assessment process for recruitment and the human resource department will ensure the accuracy of personal particulars provided by the candidates. Meanwhile, candidates shall display their identity document at the interview for actual age verification and background research.

The Group closely adheres to the standard of constant workload and does not force overtime work directly or indirectly. Other than special situations specified in the law, overtime work may be arranged after negotiation with the labour union and employees based on production and operation requirements, though overtime work for each day mostly does not exceed one hour. Where our employees are required to work overtime due to exceptional reasons, without prejudice to the physical well-being of the employees, the maximum hours allowed for overtime work should be 3 hours per day and 36 hours per month. Regular inspection on all operation units would also be conducted by the Group to ensure that none of child labour or forced labour are in existence within the Group.

For the reporting period, the Group was not aware of any situations which were in violation of any laws and regulations against child labour or forced labour.

Occupational Health and Safety

The Group manages the hygiene and safety of its plants in accordance with the relevant laws and regulations of occupational health and safety. It also holds safe production and fire safety training on a regular basis, in order to raise the safety awareness of its employees. The Group provides its employees in the PRC with labor protection supplies such as gloves, masks and work uniforms, etc., so as to ensure the safety and health of the employees. Should the employees suffer from any illness or debilitating condition or are considered by the Group to be in need of health protection based on their health inspection results, the Group will limit their job duties, redesignate their post temporarily, applying treatment and other health care measures.

No severe industrial accidents were recorded by the Group during 2019 and the Group was in compliance with the relevant laws and regulations that have a significant impact on the Company to a material respect.

Staff Development and Training

Human resources are one of the important assets of the Group. The Group actively expands the horizon for the personal development of its employees and provides various types of training for its employees, including a wide range of staff development training and senior management and personnel training. Through education and training, the Group can enable its employees to enhance their personal accomplishments, strengthen their working skills and reinforce the team performance. Moreover, employees can grow with the Group by bolstering their own values on the basis of their personal interest and expertise.

At the beginning of each calendar year, the Group draws up educational training plans in accordance with the Group's training needs. Each department is responsible for determining its training needs for staff in its department and designing a unique training plan, which shall be submitted to the senior management of the Group for approval. The Group ensures that members of staff who are under the comprehensive management system can fulfill the relevant requirements in terms of education, training, technical and work experience.

Training activities provided to staff include:

(1) New employees orientation;

(2) Technical training for existing employees or internally transferred employees; and

(3) Enrolment in externally organized classes in relation to management knowledge and important position professional training.

Promotions are made in accordance with the needs from the Group's business development and the employees' competence. Vacancies of the Group's internal management positions will be filled up internally by promoting the most qualified employees within the Group according to its policies and practices in practicable situations. In accordance with the requirements of the positions, the Group will select candidates for the vacancies internally from the employees within the Group via public means. Where feasible, the vacancies and job duties will be filled up by the internal employees within the Group, thus offering the employees with the opportunities for promotion and enhancing the efficiency of the Group.

Communication with Staff

Recognising the indispensable importance of the communication with its employees, the Group encourages its employees to share their ideas with the Group, or raise questions or make suggestions to the Group. With the availability of a wide array of communication channels, the Group offers its employees access to the latest information of the Group through a number of means such as the Group's website, internal forums, company newspaper and instant messaging.

The Group has set aside reserved funds for activities. During the year ended 31 December 2019, the Group hosted a series of activities for its employees, including a diverse range of activities such as outing, sport competition, ball game, banquet etc. These events helped employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion among its employees. Staff restaurant are available within the Group's production plants.

Environmental Protection

The Group understands and has always been aware of the increasing awareness of environmental protection from both the government and the customers and therefore pays close attention to ensure that operations comply with the environmental protection laws and regulations in the PRC. The Group's operations comply with the environmental protection laws and regulations in the PRC, including the PRC Law on the Prevention and Treatment of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) and Law of the People's Republic of China on the Promotion of Clean Production (中華人民共和國清潔生產促進法). The Directors are also of the view that our production process does not generate hazardous wastes that will cause any significant adverse impact on the environment. The Group also endeavours to implement more cost-effective and environmentally friendly printing technology and to comply with the environmental protection laws and regulation. During the year ended 31 December 2019, the Group has complied with the relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes that have a significant impact on the Company in all material respects.

The Group has taken the following steps in relation to environmental protection:

(1) The production staff will ensure that the pollutant emissions during each production procedure will comply with the requirements of the PRC environmental regulations, such as measures have been taken to ensure that industrial wastes and by-products produced as a result of the operations are properly disposed of in order to minimise adverse effects to the environment;

(2) The Group also arranges professional industrial wastage processor to collect pollutants produced by the Group during our operations, which primarily include waste paper and ink; and

(3) The Group endeavours to procure raw materials that are environmentally friendly.

The Group incurred environmental costs of approximately RMB224,000 and RMB1,087,000 for the years ended 31 December 2019 and 2018 respectively.

Performance indicator of emissions		2019 data
Emission	Total carbon dioxide emission (CO_2) (ton)	2,585
	Total nitric oxides NOx emission (ton)	237
	Total greenhouse gases emission per million RMB of goods sold (ton)	0.36
Hazardous waste	Solid and liquid hazardous from production and water treatment (ton)	163
	Total hazardous waste produced per million RMB of goods sold (ton)	0.25
Non-hazardous waste	Non-hazardous waste (ton) (office waste, paper, plastic not suitable for recycle, household waste from canteen and dormitories)	12
	Total non-hazardous waste produced per million RMB of goods sold (ton)	0.018

Use of Resources

In order to promote saving on utilisation of energy and resources in the factories and minimising the impact of the Group on the environmental and natural resources, the Group promotes various practices to staff as follow:

Water resources control

(1) The Group is committed to the guarantee of water supply installation and maintenance, and to ensuring that water supply is at its optimal working condition. When leakage is discovered, it will be repaired timely; and

(2) The Group educates each employee to save water, and to encourage the reuse of water in order to reduce water consumption, so as to reduce sewage from the source.

Electricity control

(1) Lights and electronic appliances in living area or workplace must be turned off when not in use;

(2) The use of electricity in production must strictly comply with Electricity Law of the PRC to ensure normal production with adherence to the principles of power saving, safety first, high efficiency and low consumption;

(3) To ensure no unnecessary use of resources at production lines; and

(4) Every staff must turn off the power for each department's computers, photocopy machines, printers and facsimile machines when they are off duty or on leave.

Office consumables consumption management

(1) Other than formal documents materials that require the use of papers, each department is advised to handle documents electronically. When the use of paper is required, each paper must be printed double-sided. Single-sided printing is strictly prohibited (except for confidential documents); and

(2) No printing and photocopying of materials unrelated to work.

Performance indicator of use of emissions		2019 data
Energy	Fuel and Gas (Mwh)	1,186,773
	Electricity (Mwh)	12,021.64
	Energy consumed per million RMB of goods sold (Mwh)	1,821.88
Water	In M^3 (Consumption by production, canteen and dormitory)	97,145
	Water consumed per million RMB of goods sold (M^3)	147.64
Paper	Total paper consumed by production (ton)	17,141.59
Packaging material	Packaging materials are mainly nylon tape and PP shrinkage film (ton)	113
	Packaging materials consumed per million RMB of goods sold (ton)	0.172

Supply Chain Management

The Group's relationships with its suppliers are stable and the Group did not experience any major difficulty in obtaining adequate supplies of raw materials and components to meet its production requirements in the past. The Group usually select suppliers based on the quality of raw materials supplied, pricing, production capacity, marketing history and quality assurance system to ensure we procure raw and auxiliary materials of good quality, as an initial step towards ensuring the high quality of the products. The Group has a set of internal manual on procurement standards of raw materials. When raw materials are delivered to factories, quality control staff selects samples and inspects raw materials with regard to their condition such as the surface quality of paper, the colour of the aluminium foil and ink and the VOC levels. They also review the quality testing reports provided by our suppliers. Raw materials that do not meet the requirements set by us are returned to the relevant suppliers.

The Group communicates and verifies product specifications and requirements with customers before manufacture to ensure pre-production effectiveness. The Group also conducts pre-production technical testing to set the standard known by manufacturing personnel before mass manufacture.

Quality Control on Products

The directors believe that delivery of quality products to customers according to the agreed production plan and delivery schedule is crucial to the Group's development and success. Any defects in products may lead to customers returning the products to us and claiming compensation, and may result in financial loss and damage to the brand image and reputation. To maintain the competitiveness of products, we have adopted and maintained an effective quality control system covering all the major production stages from the procurement of raw materials to delivery of the products to customers. The Group has also obtained certification of quality management system of ISO9001.

The Group has compiled a set of internal manual on standards for testing of product quality and these are implemented in each stage of the production process. In the pre-press stage, quality control staff inspects the samples before delivering them to the customers. From the press stage to the post-press stage, workers carry out self-check of work in progress, such as the colour and surface effects after different printing procedures and the quality of paper edges after die-cutting procedures. We also assign specific staff to conduct random inspection to identify possible defects. Staff is required to record the conditions of the work in progress.

In addition to visual inspection, the quality control staff uses monitoring machinery to examine the quality of finished goods, such as the coloring and positioning of artwork and the amount of VOC levels, before delivering the products to customers. Defective work in progress or finished goods found during the production process will be recorded and be disposed of by the quality control staff.

The Group's engineering department is responsible for conducting management, examination and maintenance of machinery and equipment with professional technology from time to time in order to ensure their proper functioning and safe operations, thus enhancing productivity and product quality. The Group has a set of internal guidelines on the maintenance of equipment. We plan the production schedule by taking into account, amongst other factors, the required routine maintenance so as to minimise any material impact on the Group's operation and financial performance. During the year, the Group carried out periodic inspection of machinery and equipment. The Group also conducts regular maintenance during holiday periods in factories. The time slots of maintenance are not fixed and are adjusted depending on the production plans of the Group.

The Group provides training to production staff from time to time in order to update them on production techniques and the latest technology. The Group will also update the production staff in relation to any quality issues arising either from our inspection during our production process and/or feedback from our customers. With a view to increase the incentive of each of the production staff to produce quality products and actively participate in quality control, we have established an internal award-and- punishment system. The Group's staff manual sets out a scale and the basis upon which the workers will be awarded for making contribution to quality control or penalised for making substantial mistakes.

During the year ended 31 December 2019, the operations of the Group have complied with the relevant laws and regulations regarding health and safety of products and services, advertising, labelling and privacy matters in all material respects.

Anti-corruption

In the staff handbook, one of the most important rules that the Group requires all members of staff to observe is that they must maintain honesty, refuse corruption, refuse to accept kickbacks, and they must not misappropriate the Group's funds and properties, must not abuse power for own interests, and that all gifts received must be handed to the Company. Employees could whistle-blow to the supervisor for the suspected bribery, extortion, fraud and money laundering issues. Once discovered, it will be reported to police for prosecution. There was no any legal case regarding corrupt practices brought against the Group or its employees during the year ended 31 December 2019. During the year ended 31 December 2019, the Group has complied with the relevant laws and regulations that have a significant impact on the Company relating to bribery, extortion, fraud and money laundering in all material respects.

Community Involvement

In the course of our corporate development, the Group has been committed to giving back to the society with enthusiasm in social welfare. We have internal management measures in place with clear principle for the participation of social welfare activities and charity. It specifies the scope, type and beneficiary of social welfare activities and charity, and sets out requirements on donation reason, donation target, donation channel, donation method, donation responsible person, property composition and amount of donation as well as relevant procedures of receiving the donated properties.

The Directors are pleased to present to the Shareholders this annual report and the audited consolidated financial statements for the year ended 31 December 2019 (the "Year").

Principal Activities

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in Note 11 to the consolidated financial statements in this annual report.

Results

The results of the Group for the Year are set out in the consolidated statement of comprehensive income on page 55 of this annual report.

Summary of Financial Information

The summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 112 of this annual report.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: nil).

Closure of Register of Members

The annual general meeting is scheduled to be held on Friday, 19 June 2020.

For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020, both days inclusive. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. on Monday, 15 June 2020.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the Year is as follows:

	Percentage of the Group's total sales	purchases
The largest customer	24.1%	
Five largest customers in aggregate	59.2%	
The largest supplier		20.5%
Five largest suppliers in aggregate		60.8%

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

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the Year are set out in Note 14 to the consolidated financial statements in this annual report.

Bank Borrowings

Details of bank borrowings of the Group as at 31 December 2019 are set out in Note 26 to the consolidated financial statements in this annual report.

Summary Financial Information

A summary of the published results and assets, liabilities of the Group for the last five financial years, as extracted from the audited financial statements in this annual report and the prospectus, is set out on page 112. This summary does not form part of the consolidated financial statements in this annual report.

Share Capital

Details of the Company's share capital for the Year are set out in Note 21 to the consolidated financial statements in this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company on the Stock Exchange or any other stock exchange, by private arrangement or by general offer throughout the year ended 31 December 2019.

Reserves

Movements in the reserves are set out in Note 22 and Note 23 to the consolidated financial statements in this annual report.

Connected and Related Parties Transactions

Continuing Connected Transactions

The independent non-executive Directors have reviewed the continuing connected transactions set out below, which were disclosed in compliance with the requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and have confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the Company's independent auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. PricewaterhouseCoopers has issued its unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed below by the Group in accordance with relevant clauses of Rule 14A.38 of the Listing Rules. Among which, the auditor confirmed that there is nothing that has come to its attention that the continuing connected transaction: (1) have not been approved by the Board, (2) (where such transactions involve provision of goods or services by the Group) were not, in all material respects, in accordance with the pricing policies of the Group, (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions, and (4) have exceeded their respective annual caps.

(A) Sale of paper cigarette packages or provision of processing services by the Group to connected persons

During the Year, the Group sold paper cigarette packages or provided paper cigarette packages processing services to major Provincial Tobacco Industrial Companies and non-provincial companies under China Tobacco Industry Development Center and their respective branches, factories and other entities in which they respectively have 30% or more interest. A list of the Group's customers comprising Provincial Tobacco Industrial Companies or the enterprises under China Tobacco Industry Development Center (the "State-owned Tobacco Companies Customer(s)") is set out below:

(1) China Tobacco Hubei Industrial Co., Ltd. ("China Tobacco Hubei");

(2) Heilongjiang Tobacco Industrial Co., Ltd. ("Heilongjiang Tobacco Industrial");

(3) China Tobacco Sichuan Industrial Co., Ltd. ("China Tobacco Sichuan");

(4) China Tobacco Shaanxi Industrial Co., Ltd. ("China Tobacco Shaanxi");

(5) Yunnan Tobacco Materials (Group) Company Limited ("Yunnan Tobacco Materials");

(6) China Tobacco Shandong Industrial Co., Ltd. ("China Tobacco Shandong");

(7) China Tobacco Henan Industrial Co., Ltd. ("China Tobacco Henan");

(8) Hainan Tobacco Company Limited ("Hainan Tobacco");

(9) Wuhan Hong Zhicai Packaging Printing Company Limited ("Wuhan Hong Zhicai");

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

(11) Wuhan Hongjinlong Printing Company Limited ("Wuhan Hongjinlong");

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

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

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

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

(16) Longyan Tobacco Industrial Co., Ltd. ("Longyan Tobacco");

(17) Shanxi Kunming Tobacco Co., Ltd. ("Shanxi Kunming Tobacco"); and

(18) China Tobacco Jiangsu Industrial Co., Ltd. ("China Tobacco Jiangsu").

Hubei Golden Three Gorges is a company established in the PRC with limited liability and is indirectly owned as to 82.86% by the Company and 17.14% by Hubei Three Gorges Tobacco Co., Ltd. ("Hubei Three Gorges"). Hubei Golden Three Gorges is principally engaged in the design, printing and sales of paper cigarette packages and, to a lesser extent, social product paper packages, in the PRC.

Hubei Three Gorges holds 17.14% equity interest in Hubei Golden Three Gorges, which is a subsidiary of the Company. Hence, Hubei Three Gorges is a connected person of the Company. To the best knowledge of the Directors after making reasonable enquiries, 湖北省煙草專賣局 (Hubei Tobacco Monopoly Administration) is the registered equity holder of Hubei Three Gorges and a subsidiary of China National Tobacco Corporation ("CNTC") hence, CNTC is an associate of Hubei Three Gorges under Rule 14A.13 of the Listing Rules, and accordingly a connected person of the Company.

Heilongjiang Tobacco Industrial, one of the Group's customers, is owned as to 35% by China Tobacco Hubei, and as to 65% by China Tobacco Industry Development Center. Hence, Heilongjiang Tobacco Industrial is also an associate of Hubei Three Gorges under Rules 1.01 and 14A.06(2) of the Listing Rules, and hence a connected person of the Company. Heilongjiang Tobacco Industrial is one of the non-provincial companies under China Tobacco Industry Development Center.

All of the State-owned Tobacco Companies Customers (including China Tobacco Hubei, Heilongjiang Tobacco Industrial) are direct or indirect wholly-owned subsidiaries (i.e. "fellow subsidiaries") of CNTC. Hence, on a strict interpretation of Rules 1.01 and 14A.06(2) of the Listing Rules, each of the State-owned Tobacco Companies Customers is an associate of CNTC and hence a connected person of the Company. Accordingly, transactions between the Group and each of the State-owned Tobacco Companies Customers would, on a strict interpretation of the Listing Rules, constitute connected transactions of the Company.

A table summarizing the details of the transactions during the year ended 31 December 2019 as below:

		Aggregate amount of the transaction during the year ended 31 December 2019 RMB (approximately)	Relevant annual cap for the year ended 31 December 2019 RMB (approximately)	Date of announcement	Terms of the agreement(s) for the transaction
(1)	Sale of product from the Group to Hongta Group	–	21,625,000	14 February 2018	From 14 February 2018 to 31 December 2019
(2)	Sale of product from the Group to Xiamen Tobacco	3,364,000	9,128,000	24 July 2018	From 24 July 2018 to 30 June 2019
(3)	Sale of product from the Group to Hongta Group	–	20,328,000	11 September 2018	From 11 September 2018 to 31 December 2019
(4)	Sale of product from the Group to China Tobacco Shaanxi	–	8,344,000	20 November 2018	From 20 November 2018 to 30 June 2019
(5)	Sale of product from the Group to Shanxi Kunming Tobacco	29,643,000	31,961,000	21 March 2019	From 21 March 2019 to 31 December 2019
(6)	Sale of product from the Group to Inner Mongolia Kunming Cigarettes	4,459,000	5,140,000	21 March 2019	From 21 March 2019 to 31 December 2019
(7)	Sale of product from the Group to China Tobacco Jiangsu	6,966,000	15,428,000	21 March 2019	From 21 March 2019 to 31 December 2019
(8)	Sale of product from the Group to China Tobacco Henan	61,943,000	66,306,000	21 March 2019	From 21 March 2019 to 31 December 2020
(9)	Sale of product from the Group to China Tobacco Hunan	17,105,000	50,581,000	21 March 2019	From 21 March 2019 to 31 December 2019
(10)	Sale of product from the Group to Heilongjiang Tobacco Industrial	9,254,000	10,612,000	21 March 2019	From 21 March 2019 to 31 December 2019
(11)	Sale of product from the Group to China Tobacco Shandong	–	2,094,000	21 March 2019	From 21 March 2019 to 31 December 2019
(12)	Sale of product from the Group to China Tobacco Shaanxi	–	6,864,000	21 March 2019	From 21 March 2019 to 31 December 2019
(13)	Sale of product from the Group to Hainan Tobacco	16,794,000	21,635,000	21 March 2019	From 21 March 2019 to 31 December 2019
(14)	Sale of product from the Group to Xiamen Tobacco	4,491,000	8,494,000	21 March 2019	From 21 March 2019 to 31 December 2019
(15)	Sale of product from the Group to China Tobacco Hubei	29,458,000	47,429,000	21 March 2019	From 21 March 2019 to 31 December 2019
(16)	Sale of product from the Group to Yunnan Tobacco Materials	64,468,000	163,454,000	21 March 2019	From 21 March 2019 to 31 December 2019
(17)	Sale of product from the Group to China Tobacco Sichuan	1,023,000	13,018,000	21 March 2019	From 21 March 2019 to 31 December 2019
(18)	Sale of product from the Group to China Tobacco Guizhou	22,262,000	36,284,000	21 March 2019	From 21 March 2019 to 31 December 2019

		Aggregate amount of the transaction during the year ended 31 December 2019 RMB (approximately)	Relevant annual cap for the year ended 31 December 2019 RMB (approximately)	Date of announcement	Terms of the agreement(s) for the transaction
(19)	Provision of processing services by the Group to Wuhan Hong Zhicai	1,920,000	5,105,000	21 March 2019	From 21 March 2019 to 31 December 2019
(20)	Provision of processing services by the Group to Wuhan Hongjinlong	1,278,000	1,347,000	21 March 2019	From 21 March 2019 to 31 December 2019
(21)	Sale of product from the Group to Shanxi Kunming Tobacco	3,743,000	4,364,000	26 April 2019	From 26 April 2019 to 31 December 2019
(22)	Sale of product from the Group to China Tobacco Hunan	39,220,000	77,066,000	26 April 2019	From 26 April 2019 to 31 December 2019
(23)	Sale of product from the Group to Yunnan Tobacco Materials	50,688,000	233,263,000	26 April 2019	From 26 April 2019 to 31 December 2019
(24)	Sale of product from the Group to China Tobacco Guizhou	14,142,000	27,155,000	26 April 2019	From 26 April 2019 to 31 December 2019
(25)	Sale of product from the Group to China Tobacco Sichuan	18,000	32,000	26 April 2019	From 26 April 2019 to 31 December 2019
(26)	Sale of product from the Group to China Tobacco Hunan	–	523,000	20 August 2019	From 20 August 2019 to 31 December 2019
(27)	Sale of product from the Group to Xiamen Tobacco	–	4,303,000	20 August 2019	From 20 August 2019 to 31 December 2019
(28)	Sale of product from the Group to Yunnan Tobacco Materials	24,835,000	57,638,000	20 August 2019	From 20 August 2019 to 31 December 2019
(29)	Provision of processing services by the Group to Wuhan Hong Zhicai	16,171,000	30,000,000	20 August 2019	From 20 August 2019 to 31 December 2019
(30)	Provision of processing services by the Group to Wuhan Hongjinlong	29,999,000	30,000,000	20 August 2019	From 20 August 2019 to 31 December 2019
(31)	Sale of product from the Group to Hainan Tobacco	384,000	1,020,000	2 October 2019	From 2 October 2019 to 31 December 2019
(32)	Sale of product from the Group to China Tobacco Hubei	1,131,000	2,501,000	2 October 2019	From 2 October 2019 to 31 December 2019
(33)	Sale of product from the Group to China Tobacco Shaanxi	–	5,386,000	2 October 2019	From 2 October 2019 to 31 December 2019
(34)	Sale of product from the Group to China Tobacco Shandong	843,000	2,977,000	2 October 2019	From 2 October 2019 to 31 December 2019
(35)	Sale of product from the Group to Longyan Tobacco	1,465,000	2,115,000	8 November 2019	From 8 November 2019 to 31 December 2020

The selling prices of paper cigarette packages are fixed under the agreements with the relevant State-owned Tobacco Companies Customers (which are, in general, within or determined with reference to, the price ranges specified in the relevant tender documents and for new products are determined with reference to the prices offered by the Group, which are in turn determined with reference to, inter alia, its costs of production).

(B) Purchase of paper by the Group from connected persons

The following are the suppliers of the Group which are our connected persons and the transactions with during the year ended 31 December 2019:

1. Zhuhai Huafeng Paper Company Limited (珠海華豐紙業有限公司) ("Zhuhai Huafeng"), an entity in which China Tobacco Yunnan Industrial Co., Ltd. ("China Tobacco Yunnan") indirectly owns more than 30% equity interest; and

2. Zhuhai Hongta Ren Heng Packages Holdings Co., Ltd. (珠海紅塔仁恒包裝股份有限公司) ("Hongta Ren Heng"), an entity in which China Tobacco Yunnan indirectly owns approximately 30% equity interest.

One of the State-owned Tobacco Companies Customers, China Tobacco Yunnan, designated two suppliers to supply paper to the Group as its cigarette package manufacturer:

(1) the Group entered into a paper purchase contract with Zhuhai Huafeng dated 21 March 2019 for the supply of paper for a sub-brand of China Tobacco Yunnan in which the purchase by the Group was not be more than RMB4,500,000 for the year ended 31 December 2019. Hongta Group being a wholly-owned subsidiary of China Tobacco Yunnan, owns approximately 32.5% interest in Zhuhai Huafeng. Hence, Zhuhai Huafeng is a connected person of the Company under the Listing Rules. The selling prices of paper are fixed under the paper purchase contract.

(2) the Group entered into a paper purchase contract with Hongta Ren Heng dated 21 March 2019 for the supply of paper for a sub-brand of China Tobacco Yunnan in which the purchase by the Group was not be more than RMB13,326,000 for the year ended 31 December 2019. Hongta Group, being a wholly-owned subsidiary of China Tobacco Yunnan, owns approximately 30% interest in Hongta Ren Heng. Hence, Hongta Ren Heng is a connected person of the Company under the Listing Rules. The selling prices of paper are fixed under the paper purchase contract.

A table summarizing the details of the transactions during the year ended 31 December 2019 is below:

		Aggregate amount of the transaction during the year ended 31 December 2019 RMB (approximately)	Relevant annual cap for the year ended 31 December 2019 RMB (approximately)	Date of announcement
(1)	Purchase of paper from Zhuhai Huafeng	665,000	4,500,000	21 March 2019
(2)	Purchase of paper from Hongta Ren Heng	1,259,000	13,326,000	21 March 2019

(C) *Compensation of Key Management personnel*

The transactions under the compensation of key management personnel in Note 33 were provided under the service contracts of relevant management and thus were all fully exempted pursuant to Chapter 14A of the Listing Rules.

The material related party transactions are set out in Note 32 to the consolidated financial statements in this annual report.

Save as disclosed above in this report, there were no other material transactions which would constitute connected transactions or continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are not fully exempted from shareholders' approval, annual review and all disclosure requirements under the Listing Rules during the year ended 31 December 2019. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules during the year ended to 31 December 2019.

Directors

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

Executive Director

Mr. Yang Yoong An (re-designated on 18 February 2019)

Non-executive Directors

Mr. Feng Bin (appointed on 18 February 2019)
Mr. Yang Fan (appointed on 18 February 2019)

Independent non-executive Directors

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

In accordance with Article 108(a) of the Article of Association, at each annual general meeting, one-third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Directors' Service Agreements

The executive Director has entered into a service agreement with the Company for a term of three years commencing from 18 February 2019, subject to the termination provision therein. The executive Director or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years commencing from 18 February 2019, subject to the termination provision therein. Each of the non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

Each of the independent non-executive Directors has renewed the service agreement with the Company as an independent non-executive Director for a term commencing from 29 May 2019 and ending on the conclusion of the 2019 annual general meeting of the Company to be held in 2020. Each of the independent non-executive Directors or the Company may terminate the appointment by giving the other party not less than two months' prior notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographies of Directors and Other Senior Management

The biographical details of Directors and other senior management are disclosed in the section headed "Biographies of Directors and Senior Management" on pages 14 to 17 of this annual report.

Emolument Policies and Directors' Remuneration

The Directors' remuneration is subjected to shareholders' approval at general meetings with reference to the recommendation of the Group's Remuneration Committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

None of the Director waived his/her emoluments nor has agreed to waive his/her emoluments for the year ended 31 December 2019.

Directors' Interests in Contracts

There was no transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest (either directly or indirectly) subsisted as at 31 December 2019 or at any time during the year ended 31 December 2019.

Controlling Shareholders' Interests in Contracts

No transaction, arrangement or contract of significance has been entered into between the Company or any of its subsidiaries and the controlling Shareholders or any of their subsidiaries at any time during the year ended 31 December 2019.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

Permitted Indemnity Provisions

Pursuant to the Articles of Association, the Directors, managing Directors, alternate directors, auditors, secretary and other officers for the time being of the Company shall be indemnified and secured harmless out of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their duty in their offices or in relation thereto. Such provisions were in force during the year ended 31 December 2019 and as of the date of this report.

Retirement Benefits Schemes

The Group participates in a state-managed retirement scheme operated by the PRC government which covers the Group's eligible employees in the PRC and a defined contribution Mandatory Provident Fund Scheme for the employee in Hong Kong.

Distributable Reserves

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2019 amounted to approximately RMB25.2 million (as at 31 December 2018: approximately RMB25.2 million).

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any of the Associated Corporations

As at 31 December 2019, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of the associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or which, pursuant to section 352 of the SFO, have been entered in the register referred to therein, or have been, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules on the Stock Exchange, notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company

Name	Capacity/Nature of interest	No. of ordinary shares held	Percentage of interest *(Note 3)*
Mr. Yang Yoong An ("Mr. Yang")	Interest of a controlled corporation *(Note 1)*	209,362,000	69.79%
Mr. Feng Bin ("Mr. Feng")	Interest of a controlled corporation *(Note 2)*	15,638,000	5.21%

(ii) Long position in the ordinary shares of associated corporation

Name	Name of associated corporation	Capacity/ Nature of interest	No. of ordinary shares held	Percentage of interest
Mr. Yang	Spearhead Leader Limited	Beneficial owner	1	100%

Notes:

1. Mr. Yang beneficially owns the entire issued share capital of Spearhead Leader Limited. Therefore, Mr. Yang is deemed, or taken to be, interested in 209,362,000 shares of the Company held by Spearhead Leader Limited for the purpose of the SFO. Mr. Yang is the sole director of Spearhead Leader Limited.

2. Mr. Feng beneficially owns the entire issued share capital of Star Glide Limited. Therefore, Mr. Feng is deemed, or taken to be, interested in 15,638,000 Shares held by Star Glide Limited for the purpose of the SFO. Mr. Feng is the sole director of Star Glide Limited.

3. Calculated on the basis of 300,000,000 shares of the Company in issue as at 31 December 2019.

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

So far as is known to the Directors, as at 31 December 2019, the following persons (not being a Director or chief executive of the Company) had interests or short positions in shares or underlying shares of the Company which fell to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Capacity/Nature of interest	No. of ordinary shares held/ interested	Percentage of shareholding *(Note 3)*
Spearhead Leader Limited	Beneficial owner	209,362,000	69.79%
Star Glide Limited	Beneficial owner	15,638,000	5.21%
Ms. Cai Yaohui ("Ms. Cai")	Interest of spouse *(Note 1)*	209,362,000	69.79%
Ms. Zhao Yi ("Ms. Zhao")	Interest of spouse *(Note 2)*	15,638,000	5.21%

Notes:

1. Ms. Cai is the spouse of Mr. Yang. Accordingly Ms. Cai is deemed, or taken to be, interested in all shares of the Company in which Mr. Yang is interested in for the purpose of the SFO.

2. Ms. Zhao is the spouse of Mr. Feng. Accordingly Ms. Zhao is deemed, or taken to be, interested in all shares of the Company in which Mr. Feng is interested in for the purpose of the SFO.

3. Calculated on the basis of 300,000,000 shares of the Company in issue as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which fell to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") pursuant to a shareholders' resolution passed on 6 June 2014. The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group and to promote the success of the business of the Group. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 30,000,000 shares, being 10% of the shares of the Company in issue as at the date of this annual report, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, independent non-executive Directors, or any of their respective associates) in any 12-month period in excess of 0.1% of the Company's issued share capital in aggregate or with an aggregate value in excess of HKD5,000,000 must be also approved by the Company's shareholders.

The subscription price of share in respect of options granted under the Share Option Scheme shall be solely determined is determinable by the Board, but may not be less than the higher of (i) the Stock Exchange's closing price of the Company's shares on the date of the grant of the share options which must be a business day; (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share of the Company.

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the adoption date (i.e. 6 June 2014) and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting. An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HKD1. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

No options were granted, exercised, cancelled or lapsed and there were no outstanding options under the Share Option Scheme from the date of its adoption to the date of this annual report. A summary of the principal terms and conditions of the Share Option Scheme is set out in Appendix V to the prospectus of the Company dated 17 June 2014.

Competing Business and Conflicts of Interests

None of the Directors is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has any other conflicts of interests with the Group.

Corporate Governance

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2019.

Environmental Policies and Performance

As a responsible corporation, the Group strives to ensure minimal environmental impacts by carefully managing our energy consumption, water usage and waste production. At office level, the Company has implemented green initiatives and encourage staff to attend related training. For further details, please refer to the environmental, social and governance report of this annual report.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements could lead to adverse impact on business operation and financial position of the Group. The Group has been allocating staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working with relevant authorities effectively through effective communications. To the best of knowledge of the management, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group during the year ended 31 December 2019.

Audit Committee

The Company has an Audit Committee with terms of reference aligned with the provision of the Code as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Ping (as Chairman), Mr. Zeng Shiquan and Mr. Gong Jinjun. This annual report and the financial results for the year ended 31 December 2019 have been reviewed by the Audit Committee.

Business Review

Further discussion and analysis of the business of the Company, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the business of the Group, can be found in the section headed "Management Discussion and Analysis" as set out on pages 5 to 13 of this annual report. These discussions form part of this Directors' Report.

Charitable Donations

No charitable donations was made by the Group during the year ended 31 December 2019 (2018: nil).

Confirmation of Independence

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

Auditors

On 9 June 2017, PricewaterhouseCoopers were appointed as auditors of the Company following the retirement of HLB Hodgson Impey Cheng Limited. PricewaterhouseCoopers were re-appointed as auditors of the Company at the 2017 annual general meeting on 25 May 2018. Save for the above, there were no other changes in the Company's auditors in the past three years.

PricewaterhouseCoopers will retire at the forthcoming annual general meeting.

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

On behalf of the Board

Yang Yoong An
Chairman
Hong Kong, 29 April 2020

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

Opinion

What we have audited

The consolidated financial statements of Jia Yao Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 111, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

Key audit matter identified in our audit is related to revenue recognition.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue Recognition	
Refer to Note 2.24 and Note 5 to the Group's consolidated financial statements. During the year ended 31 December 2019, the Group has recognised revenue from sales of goods amounted to RMB581 million. Revenue for the sales of goods is recognised when the Group transfers all the control of goods to the customer and no longer reserved any right to continue to manage and implement effective control which often associated with the ownership of the goods, and costs incurred or to be incurred can be measured reliably. We identified revenue recognition as a key audit matter due to the volume of revenue transactions is significant and generated from various customers throughout mainland China, and thus significant efforts were devoted in this area.	We understood, evaluated and validated management's controls in respect of the Group's sales transactions from customer order's approval, goods delivery, sales recording, reconciliation of cash receipts and customer's records through to subsequent settlement of trade receivables. We conducted testing of revenue recorded covering different customers, using sampling techniques, by examining the relevant supporting documents including customer orders, goods delivery notes and customer's receipt records. In addition, we confirmed customers' balances and transactions on a sample basis, by considering the amount, nature and characteristics of those customers. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date, by reconciling recognised revenue with the goods delivery notes and customers' receipt records, to assess whether revenue was recognised in the correct reporting periods. Based on the work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

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.

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	5	**581,257**	567,126
Cost of sales	9	**(455,253)**	(444,645)
Gross profit		**126,004**	122,481
Distribution costs	9	**(41,324)**	(38,808)
Administrative expenses	9	**(65,845)**	(59,724)
Net impairment losses on financial assets		**(174)**	(26)
Other income	6	**3,137**	3,914
Other losses	7	**(9,761)**	(2,625)
Operating profit		**12,037**	25,212
Finance income	8	**1,722**	1,252
Finance costs	8	**(3,928)**	(5,970)
Finance costs (net)	8	**(2,206)**	(4,718)
Profit before income tax		**9,831**	20,494
Income tax expense	12	**(2,381)**	(3,892)
Profit for the year		**7,450**	16,602
Profit attributable to:			
— Owners of the Company		**4,222**	12,984
— Non-controlling interests	11	**3,228**	3,618
Profit for the year		**7,450**	16,602
Other comprehensive income			
Currency translation differences		**(1,154)**	(782)
Other comprehensive income, net of tax		**(1,154)**	(782)
Total comprehensive income for the year		**6,296**	15,820
Total comprehensive income for the year attributable to:			
— Owners of the Company		**3,068**	12,202
— Non-controlling interests		**3,228**	3,618
Total comprehensive income for the year		**6,296**	15,820
Earnings per share attributable to owners of the Company			
— Basic earnings per share	13	**0.01**	0.04
— Diluted earnings per share	13	**0.01**	0.03

The notes on pages 60 to 111 are an integral part of these consolidated financial statements.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	*16*	**49,904**	–
Land use rights	*15*	**–**	20,883
Investment properties	*17*	**9,959**	–
Property, plant and equipment	*14*	**114,988**	130,358
Prepayment for property, plant and equipment		**2,246**	3,956
Prepayment for land use rights		**–**	34,640
Deferred income tax assets	*24*	**5,375**	5,593
		182,472	195,430
Current assets			
Inventories	*19*	**148,275**	154,984
Trade and other receivables	*18*	**153,377**	133,908
Restricted cash	*20*	**84,300**	86,121
Cash and cash equivalents	*20*	**75,899**	212,527
		461,851	587,540
Total assets		**644,323**	782,970

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*21*	**2,382**	2,382
Other reserves	*22*	**169,522**	168,950
Retained profits	*23*	**40,546**	38,050
		212,450	209,382
Non-controlling interests	*11*	**47,320**	44,092
Total equity		**259,770**	253,474
LIABILITIES			
Non-current liabilities			
Lease liabilities, non-current	*16*	**832**	–
		832	–
Current liabilities			
Trade and other payables	*25*	**325,450**	384,891
Income tax payable		**2,518**	3,803
Borrowings	*26*	**55,000**	35,000
Convertible notes	*27*	**–**	105,802
Lease liabilities, current	*16*	**753**	–
		383,721	529,496
Total liabilities		**384,553**	529,496
Total equity and liabilities		**644,323**	782,970

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

The financial statements on pages 55 to 111 were approved by the board of directors on 29 April 2020 and were signed on its behalf by:

Yang Yoong An
Director

Yang Fan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the owners of the Company					
	Share capital	**Other reserves**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21)	*(Note 22)*	*(Note 23)*			
Balance at 1 January 2018	2,382	164,506	27,330	194,218	40,474	234,692
Profit for the year	–	–	12,984	12,984	3,618	16,602
Other comprehensive income	–	(782)	–	(782)	–	(782)
Appropriation to statutory reserves	–	2,264	(2,264)	–	–	–
Waiver of borrowings from a related party	–	2,962	–	2,962	–	2,962
Balance at 31 December 2018	2,382	168,950	38,050	209,382	44,092	253,474
Balance at 1 January 2019	**2,382**	**168,950**	**38,050**	**209,382**	**44,092**	**253,474**
Profit for the year	**–**	**–**	**4,222**	**4,222**	**3,228**	**7,450**
Other comprehensive income	**–**	**(1,154)**	**–**	**(1,154)**	**–**	**(1,154)**
Appropriation to statutory reserves	**–**	**1,726**	**(1,726)**	**–**	**–**	**–**
Balance at 31 December 2019	**2,382**	**169,522**	**40,546**	**212,450**	**47,320**	**259,770**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	*31(a)*	**(35,630)**	207,929
Interest received		**1,722**	1,252
Interest paid	*31(c)*	**(8,603)**	(10,626)
Income tax paid		**(4,080)**	(4,332)
Net cash (used in)/generated from operating activities		**(46,591)**	194,223
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5,312)**	(17,611)
Prepayments of property, plant and equipment		**(2,246)**	(3,956)
Payments for land use right		**(1,425)**	(34,640)
Collection of land use right deposit		**–**	9,000
Proceeds from disposal of property, plant and equipment	*31(b)*	**2,762**	304
Net cash used in investing activities		**(6,221)**	(46,903)
Cash flows from financing activities			
Proceeds from borrowings		**142,000**	115,000
Repayments of convertible notes	*31(c)*	**(108,001)**	–
Repayments of borrowings		**(122,000)**	(219,990)
Repayments of lease liabilities		**(575)**	–
Changes in restricted cash pledged for notes payable		**1,821**	(27,976)
Net cash used in financing activities		**(86,755)**	(132,966)
Net (decrease)/increase in cash and cash equivalents		**(139,567)**	14,354
Effect of foreign exchange rate changes		**2,939**	4,235
Cash and cash equivalents at beginning of the year		**212,527**	193,938
Cash and cash equivalents at end of the year	*20*	**75,899**	212,527

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

1 General information

Jia Yao Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 5 August 2013. The Company was formerly known as Tourism International Holdings Limited and its name was changed to the current name on 4 June 2019.

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

The Company's registered office is located at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands, and the address of the principal place of business is No. 6 Qingdao Road, Dongshan Economic Developing District, Yichang, Hubei Province, the PRC.

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

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

These consolidated financial statements were approved for issue by the board of directors (the "Board") of the Company on 29 April 2020.

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.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

Compliance with Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of financial liabilities, which are measured at fair value.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(iii) 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 2019:

- HKFRS 16 "Leases"
- Amendments to HKFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to HKAS 28 "Long-term Interests in Associates and Joint Ventures"
- Annual Improvements to HKFRS Standards 2015 — 2017 Cycle
- Amendments to HKAS 19 "Plan Amendment, Curtailment or Settlement"
- Interpretation 23 "Uncertainty over Income Tax Treatments"

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to apply the simplified transition approach and has not restated comparatives for the 2018 reporting period. This is disclosed in 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.

(iv) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
Amendments to HKFRS 3	Definition of a business	1 January 2020
Revised Conceptual Framework for Financial Reporting	Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

These standards are not expected to have material impact on the Group in the current or future reporting periods.

2 Summary of significant accounting policies *(Continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's consolidated financial statements.

As indicated in Note 2.1 above, the Group has adopted HKFRS 16 from 1 January 2019, applied the simplified transition approach and has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provision in the standard. Right-of-use assets were measured at the amount of the lease liabilities on adoption. There was no impact to the opening retained earnings. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

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.

(i) Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review — there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

2 Summary of significant accounting policies *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(ii) Measurement of right-of-use assets

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018, if any. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Prepayment for land use rights and land use rights were reclassified to right-of-use assets as of 31 December 2019 and 1 January 2019.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

Consolidated balance sheet (extract)	31 December 2018 As originally Presented RMB'000	Impact of HKFRS 16 RMB'000	1 January 2019 Restated RMB'000
Right-of-use assets	–	20,883	20,883
Land use rights	20,883	(20,883)	–

(iv) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2.3 Subsidiaries

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

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.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of changes in equity respectively.

2 Summary of significant accounting policies *(Continued)*

2.4 Separate financial statements

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

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

2.5 Segment reporting

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

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

2.6 Foreign currency translation

(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 Renminbi (RMB), which is 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 profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

2 Summary of significant accounting policies *(Continued)*

2.6 Foreign currency translation *(Continued)*

(b) Transactions and balances (Continued)

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

(c) Group companies

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

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

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

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

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

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

(d) Disposal of foreign operation and partial disposal

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

2 Summary of significant accounting policies *(Continued)*

2.6 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal (Continued)

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

2.7 Property, plant and equipment

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

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

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

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

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

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

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

2.8 Investment properties

Investment properties, principally freehold office buildings and lands are held for long-term rental yields and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. The Group adopts the cost model for subsequent measurement for investment properties.

2 Summary of significant accounting policies *(Continued)*

2.8 Investment properties *(Continued)*

Depreciation or amortisation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

• Land use rights	50 years
• Buildings	40 years
• Machinery	10-15 years
• Furniture, fittings and equipment	5 years

The Group transferred a property to investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use.

2.9 Impairment of non-financial assets

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

2.10 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), 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 OCI. 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 reclassifies debt investments when and only when its business model for managing those assets changes.

2 Summary of significant accounting policies *(Continued)*

2.10 Investments and other financial assets *(Continued)*

(b) Recognition and derecognition

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

(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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

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

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

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other losses and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income.

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

2 Summary of significant accounting policies *(Continued)*

2.10 Investments and other financial assets *(Continued)*

(c) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other losses in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

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 2.14 for further details.

2.11 Offsetting financial instruments

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

2.12 Financial liabilities

(a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings and financial guarantee contracts, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities mainly include trade and other payables, borrowings and convertible notes.

2 Summary of significant accounting policies *(Continued)*

2.12 Financial liabilities *(Continued)*

(b) Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(i) Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied.

(ii) Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in 'finance costs' in the consolidated statement of comprehensive income.

(c) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies *(Continued)*

2.13 Inventories

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

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are generally due for settlement within one year and therefore are all classified as current. The carrying amount of trade receivables is presented after net of the expected credit losses.

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 18 for further information about the Group's accounting for trade receivables and Note 2.10 for a description of the Group's impairment policy.

2.15 Cash and cash equivalents

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

2.16 Share capital

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

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

2.17 Trade and other payables

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

2 Summary of significant accounting policies *(Continued)*

2.18 Convertible notes

The convertible notes issued by the Group can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value in most cases. Convertible notes are recognised initially at fair value as a whole. The transaction cost that is directly attributed to the issue of the convertible notes is recognised as financial cost. There are certain clauses on adjustment of the conversion price make the conversion option does not fulfil the "fixed-for-fixed" criteria and therefore the Company records the convertible notes as a financial liability.

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

2.19 Borrowings

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

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

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

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

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

2 Summary of significant accounting policies *(Continued)*

2.20 Borrowing costs

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

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

2.21 Current and deferred income tax

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

Current income tax

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

Deferred income tax

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

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

2 Summary of significant accounting policies *(Continued)*

2.21 Current and deferred income tax *(Continued)*

Deferred income tax (Continued)

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

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

2.22 Employee benefits

(a) *Short-term obligations*

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

(b) *Pension obligations*

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

2 Summary of significant accounting policies *(Continued)*

2.23 Provisions

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

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

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

2.24 Revenue recognition

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers. Control of the goods is transferred at a point in time.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes.

Sales and trading of goods

Revenue for sales and trading of goods is recognised when the Group transfers all the control of goods to the customer and no longer reserves any right to continue to manage and implement effective control which often associated with the ownership of the goods, and costs incurred or to be incurred can be measured reliably. The revenue for the sales of good is recognised on prices received or receivable from the customer according to the contract or agreement. As receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2.25 Interest income

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

2 Summary of significant accounting policies *(Continued)*

2.26 Dividend income

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

2.27 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is described in Note 2.2.

Before the change, up to 31 December 2018 leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were recognised as expenses in the consolidated statement of comprehensive income 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.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2 Summary of significant accounting policies *(Continued)*

2.27 Leases *(Continued)*

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example, term, country, currency and security.

A leasee is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal 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.

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (Note 16). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2 Summary of significant accounting policies *(Continued)*

2.28 Dividends distribution

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

2.29 Government grants

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

3 Financial risk management

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

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

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

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

As at 31 December 2019, if RMB had strengthened/weakened by 5% against the USD and HKD, the Group's profit before income tax for the year would have been lower/higher by approximately RMB54,000 (2018: lower/higher RMB815,000), mainly as a result of foreign exchange gains/losses arising from the translation of USD-denominated and HKD-denominated cash and cash equivalents, receivables, convertible notes and payables balances.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits, borrowings, and convertible notes. Bank deposits, borrowings and convertible notes at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits, borrowings and convertible notes have been disclosed in Note 20, Note 26 and Note 27 respectively.

(b) Credit risk

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

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

For customers, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monetary procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

The amounts disclosed in the table are the contractual undiscounted cash flows.

(i) Maturities of financial liabilities

	Less than 1 year RMB'000	1-2 years RMB'000	2-3 years RMB'000	Total RMB'000
At 31 December 2019				
Non-derivatives				
Trade and other payables	323,978	1,472	–	325,450
Lease liabilities	747	747	124	1,618
Borrowings	56,507	–	–	56,507
	381,232	2,219	124	383,575

	Less than 1 year RMB'000	Total RMB'000
At 31 December 2018		
Non-derivatives		
Trade and other payables	385,928	385,928
Convertible notes	110,191	110,191
Borrowings	36,060	36,060
	532,179	532,179

3 Financial risk management *(Continued)*

3.2 Capital management

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

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

Consistent with others in the industry, the Group monitors capital based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Details of net debt is disclosed in Note 31(c). Total capital is calculated as "equity" as shown in the consolidated balance sheets plus total debt.

The gearing ratios are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total borrowings	**55,000**	140,802
Less: cash and cash equivalents	**(75,899)**	(212,527)
Net debt	**(20,899)**	(71,725)
Total equity	**259,770**	253,474
Total capital	**238,871**	181,749
Gearing ratio (%)	**Not applicable**	Not applicable

3 Financial risk management *(Continued)*

3.3 Fair value estimation

(a) Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

As at 31 December 2019, there are no financial liabilities measured at fair value. (As at 31 December 2018, the financial liabilities measured at fair value are the convertible notes amounting to RMB105,802,000, which were categorised into level 3)

Fair value of financial assets and liabilities measured at amortised cost

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

4 Critical accounting estimates and judgements

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

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

4 Critical accounting estimates and judgements *(Continued)*

(a) Impairment of trade receivables

The Group has adopted the simplified expected credit loss model for its trade receivables (Note 18), as required by HKFRS 9. The Group referred to the experience of historical credit losses, integrated with the current situation and the forecast of the future economic situation, and prepared the model which refers to the days past due and the expected credit loss rate during lifetime, in order to assess the expected credit loss. Management will reassess the provision by each balance sheet date.

(b) Net realisable value of inventories

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

(c) Impairment and useful lives of property, plant and equipment

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

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

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

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

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

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

5 Segment information

(a) Description of segments and principal activities

The Group manages its businesses by divisions. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operation decision maker, for the purposes of resource allocation and performance assessment, the Group's reportable and operating segments are as follows:

Paper cigarette packages	—	design, printing and sale of paper cigarette packages
Social product paper packages	—	design, printing and sale of social product paper packages (e.g. packages for alcohol, medicines and food)
Trading goods	—	trade sales of goods including mainboards of cell phones

(b) Segment revenue

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

The segment results for the year ended 31 December 2019:

	Year ended 31 December 2019			
	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Trading goods RMB'000	Total RMB'000
Revenue	548,847	13,180	19,230	581,257
Gross profit/(loss)	128,672	(3,162)	494	126,004
Distribution costs	(40,100)	(1,224)	–	(41,324)
Segment results	88,572	(4,386)	494	84,680
Administrative expenses				(65,845)
Net impairment losses on financial assets				(174)
Other income				3,137
Other losses				(9,761)
Finance costs (net) *(Note 8)*				(2,206)
Profit before income tax				9,831

5 Segment information *(Continued)*

(b) Segment revenue *(Continued)*

The segment results for the year ended 31 December 2018:

	Year ended 31 December 2018			
	Paper cigarette packages RMB'000	Social product paper packages RMB'000	Trading goods RMB'000	Total RMB'000
Revenue	541,226	25,900	–	567,126
Gross profit	120,382	2,099	–	122,481
Distribution costs	(36,641)	(2,167)	–	(38,808)
Segment results	83,741	(68)	–	83,673
Administrative expenses				(59,724)
Net impairment losses on financial assets				(26)
Other income				3,914
Other losses				(2,625)
Finance costs (net) *(Note 8)*				(4,718)
Profit before income tax				20,494

(c) Segment assets by location

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

	2019 RMB'000	2018 RMB'000
Mainland China	**177,097**	189,834
Hong Kong	**–**	3
	177,097	189,837

5 Segment information (Continued)

(d) Information about major customers

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

	2019 RMB'000	2018 RMB'000
Customer A	139,991	132,049
Customer B	61,943	70,810
Customer C	56,325	73,801
Customer D	47,432	4,971
	305,691	281,631

These revenues are attributable to paper cigarette packages.

(e) Other segment information

(i) Depreciation of property, plant and equipment

	2019 RMB'000	2018 RMB'000
Paper cigarette packages	13,262	15,156
Social product paper packages	696	993
Total	13,958	16,149

(ii) Impairment of property, plant and equipment

	2019 RMB'000	2018 RMB'000
Paper cigarette packages	3,130	8,417
Social product paper packages	1,863	210
Total	4,993	8,627

6 Other income

	2019 RMB'000	2018 RMB'000
Government grants	**3,137**	1,734
Sundry income	**–**	954
Change in fair value of financial liabilities at FVPL	**–**	1,226
	3,137	3,914

7 Other losses

	2019 RMB'000	2018 RMB'000
Loss on disposal of raw materials	**4,720**	1,669
Change in fair value of financial liabilities at FVPL *(Note 27)*	**4,407**	–
Loss on disposal of property, plant and equipment	**428**	956
Others	**206**	–
	9,761	2,625

8 Finance costs (net)

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	**3,534**	5,755
Interest income on bank deposits	**(1,722)**	(1,252)
Exchange (gain)/loss, net	**(3)**	181
Other bank charges	**397**	34
	2,206	4,718

9 Expenses by nature

	2019 RMB'000	2018 RMB'000
Operating profit for the year has been arrived at after charging:		
Raw materials and consumables used	**395,073**	384,494
Changes in inventories of finished goods and work in progress	**9,160**	(21,468)
Employee benefits expenses *(Note 10)*	**69,569**	86,764
Depreciation	**13,958**	16,149
Transportation cost	**19,167**	21,822
Energy and water expense	**12,872**	12,547
Recognition of impairment losses	**4,993**	13,522
Social promotion expense	**20,350**	15,733
Real estate tax, stamp duties and other taxes	**3,802**	5,388
Professional service expense	**2,282**	1,108
Office expense	**3,680**	2,663
Operating lease rentals in respect of rented premises	**2,696**	1,566
Auditors' remuneration	**1,400**	1,200
Amortisation	**1,145**	605
Other operating expenses	**2,275**	1,084
Total cost of sales, distribution costs and administrative expenses	**562,422**	543,177

10 Employee benefit expense

	2019 RMB'000	2018 RMB'000
Wages and salaries	**63,345**	81,144
Welfare, medical and other expenses	**4,224**	5,620
Total employee benefit expense	**69,569**	86,764

(a) Five highest paid individuals

The emoluments payable to the five (2018: five) highest paid individuals during the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**1,173**	1,770
Contribution to pension scheme	**94**	103
	1,267	1,873

Each of their emoluments for the year ended 31 December 2019 and 2018 was within HKD1,000,000.

11 Subsidiaries

The Group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of incorporation and kind of legal entity	Nominal value of issued share capital or registered capital	Ownership interest held by the Group 2019 %	2018 %	Principal activities and place of operation
Hubei Golden Three Gorges Printing Industry Co., Ltd.	The PRC, limited liability company	RMB78,782,100	**82.86**	82.86	Packages production and retail in the PRC
Dangyang Golden Three Gorges Printing Industry Co., Ltd.	The PRC, limited liability company	RMB40,000,000	**87.15**	87.15	Packages production and retail in the PRC
Hubei Golden Three Gorges Cultural Industry Co., Ltd.	The PRC, limited liability company	RMB50,000,000	**82.86**	82.86	Investment holding in the PRC
Xiamen Xinjiayao Supply Chain Management Co., Ltd.	The PRC, limited liability company	RMB1,500,000	**100.00**	–	Trading of goods in the PRC
Giant Harmony Limited	BVI, limited liability company	RMB118,612,148	**100.00**	100.00	Investment holding in BVI
King Heritage (BVI) Limited	BVI, limited liability company	USD1	**–**	100.00	Investment holding in BVI
Southwick Global (BVI) Limited	BVI, limited liability company	USD1	**–**	100.00	Investment holding in BVI
Success Up Global (BVI) Limited	BVI, limited liability company	USD1	**–**	100.00	Investment holding in BVI
Utter Success (BVI) Limited	BVI, limited liability company	USD1	**–**	100.00	Investment holding in BVI
Wealth Basin (BVI) Limited	BVI, limited liability company	USD1	**–**	100.00	Investment holding in BVI
Park Linker Limited	Hong Kong, limited liability company	HKD1	**100.00**	100.00	Investment holding in Hong Kong
King Gather Limited	Hong Kong, limited liability company	HKD100	**100.00**	100.00	Investment holding in Hong Kong
Easy Creator Limited	Hong Kong, limited liability company	HKD1	**100.00**	100.00	Investment holding in Hong Kong
Charming Concept Limited	Hong Kong, limited liability company	HKD10,000	**–**	100.00	Not yet commence business

The Group dissolved King Heritage (BVI) Limited, Southwick Global (BVI) Limited, Success Up Global (BVI) Limited, Utter Success (BVI) Limited, Wealth Basin (BVI) Limited and Charming Concept Limited in 2019.

11 Subsidiaries *(Continued)*

(a) Non-controlling interests (NCI)

Set out below are summarised financial information for the three subsidiaries (Hubei Golden Three Gorges Printing Industry Co., Ltd., Dangyang Golden Three Gorges Printing Industry Co., Ltd. and Hubei Golden Three Gorges Cultural Industry Co., Ltd.) that have non-controlling interests that are material to the Group. The total amounts disclosed for the subsidiaries are before inter-company eliminations.

Summarised balance sheet	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Current assets	518,192	563,865
Current liabilities	(408,852)	(451,737)
Current net assets	109,340	112,128
Non-current assets	208,650	186,833
Non-current liabilities	–	–
Non-current net assets	208,650	186,833
Net assets	317,990	298,961
Accumulated NCI	47,320	44,092

Summarised statement of comprehensive income	2019 RMB'000	2018 RMB'000
Revenue	562,027	567,224
Profit for the period	19,029	20,619
Other comprehensive income	–	–
Total comprehensive income	19,029	20,619
Profit allocated to NCI	3,228	3,618

Summarised cash flows	2019 RMB'000	2018 RMB'000
Cash flows from operating activities	(32,760)	204,577
Cash flows from investing activities	(6,221)	(46,903)
Cash flows from financing activities	(8,754)	(132,966)
Net (decrease)/increase in cash and cash equivalents	(47,735)	24,708

12 Income tax expense

	2019 RMB'000	2018 RMB'000
Current income tax (i)	**2,163**	5,576
Deferred income tax		
— Deferred tax assets	**218**	(1,684)
	2,381	3,892

(i) Current income tax

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

The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2018: 16.5%). Hong Kong profits tax has not been provided as these subsidiaries did not have estimated assessable profit for the year (2018: nil).

Hubei Golden Three Gorges Printing Industry Co., Ltd.* (湖北金三峽印務有限公司) ("Hubei Golden Three Gorges") has been qualified as a High New Tech Enterprises according to the Corporate Income Tax Law of the PRC and subject to a reduced corporate income tax ("CIT") rate of 15% in 2019 (2018: 15%).

The remaining subsidiaries established in the PRC are subject to the PRC CIT rate of 25% (2018: 25%).

(ii) PRC withholding income tax

Under relevant tax laws and regulations, dividends distributed from the PRC subsidiaries to non-PRC tax resident Group entities shall be subject to the withholding income tax at 10%. In the current year, the Group plans to use the unremitted earnings of the PRC subsidiaries up to 31 December 2019 for reinvestment. No PRC withholding income tax was provided for unremitted earnings of the PRC subsidiaries as at 31 December 2019. Meanwhile, the Group did not recommend the payment of dividend for the year ended 31 December 2019 (2018: none).

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

	2019 RMB'000	2018 RMB'000
Profit before tax	**9,831**	20,494
Tax at PRC CIT rate of 15%	**1,475**	3,074
Different tax rate impact of certain subsidiaries	**1,147**	273
Tax losses for which no deferred income tax asset was recognised	**473**	622
Cost not deductible for taxation purposes	**2,576**	1,787
Additional deduction for research and development expenditures	**(3,290)**	(1,864)
	2,381	3,892

* *For identification purpose only*

13 Earnings per share

(a) Basic earnings per share

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

	2019	2018
Profit attributable to the owners of the Company (RMB'000)	**4,222**	12,984
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic earnings per share (RMB)	**0.01**	0.04

(b) Diluted earnings per share

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

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

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

The convertible notes were matured on 17 October 2019. The Company has redeemed all the convertible notes in the total amount of HKD120,000,000. For the year ended 31 December 2019, the Company has no dilutive effect from the convertible notes and the diluted earnings per share is the same as the basic earnings per share. Diluted earnings per share for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018
Profit attributable to the owners of the Company (RMB'000)	12,984
Change in fair value of convertible notes (RMB'000)	(1,226)
Profit used to determine diluted earnings per share (RMB'000)	11,758
Weighted average number of ordinary shares in issue ('000)	300,000
Adjustments for convertible notes ('000)	59,259
Weighted average number of ordinary shares for diluted earnings per share ('000)	359,259
Diluted earnings per share (RMB)	0.03

14 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	11,054	123,298	1,923	2,358	150	138,783
Additions	–	–	–	20	17,591	17,611
Internal transfer	150	17,262	–	329	(17,741)	–
Disposal	(200)	(1,039)	–	(21)	–	(1,260)
Depreciation	(1,279)	(13,702)	(609)	(559)	–	(16,149)
Impairment	–	(8,375)	–	(252)	–	(8,627)
As at 31 December 2018	9,725	117,444	1,314	1,875	–	130,358
At 31 December 2018						
Cost	24,547	317,291	12,846	8,242	–	362,926
Accumulated depreciation	(12,889)	(167,795)	(11,532)	(6,115)	–	(198,331)
Provision	(1,933)	(32,052)	–	(252)	–	(34,237)
Net book amount	9,725	117,444	1,314	1,875	–	130,358
Year ended 31 December 2019						
Opening net book amount	**9,725**	**117,444**	**1,314**	**1,875**	**–**	**130,358**
Additions	**–**	**–**	**–**	**80**	**9,188**	**9,268**
Internal transfer	**–**	**7,109**	**–**	**320**	**(7,429)**	**–**
Disposal	**(1,060)**	**(2,015)**	**–**	**(115)**	**–**	**(3,190)**
Depreciation	**(1,026)**	**(12,022)**	**(538)**	**(372)**	**–**	**(13,958)**
Impairment	**–**	**(4,993)**	**–**	**–**	**–**	**(4,993)**
Transfer to investment properties	**(508)**	**(1,835)**	**–**	**(154)**	**–**	**(2,497)**
As at 31 December 2019	**7,131**	**103,688**	**776**	**1,634**	**1,759**	**114,988**
At 31 December 2019						
Cost	**18,475**	**306,390**	**12,846**	**4,387**	**1,759**	**343,857**
Accumulated depreciation	**(9,411)**	**(167,345)**	**(12,070)**	**(2,568)**	**–**	**(191,394)**
Provision	**(1,933)**	**(35,357)**	**–**	**(185)**	**–**	**(37,475)**
Net book amount	**7,131**	**103,688**	**776**	**1,634**	**1,759**	**114,988**

As at 31 December 2019, plant and equipment with net book value of RMB19,410,000 (31 December 2018: RMB30,921,000) (Note 29) have been pledged as security for bank borrowings of the Group amounting to RMB55,000,000 (31 December 2018: RMB35,000,000) (Note 26).

14 Property, plant and equipment *(Continued)*

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

	2019 RMB'000	2018 RMB'000
Cost of sales *(Note 9)*	12,333	13,721
Administrative expenses *(Note 9)*	1,557	2,333
Distribution costs *(Note 9)*	68	95
	13,958	16,149

(b) Impairment loss

A provision for idle machinery of RMB4,993,000 was made for the year ended 31 December 2019 (31 December 2018: RMB8,627,000). The machinery became idle because of industry technology improvement. Management estimated the recoverable amount by taking current fair value and residual value into consideration.

15 Land use rights

	Total RMB'000
Balance as at 1 January 2018	21,488
Additions	–
Amortisation	(605)
Balance as at 31 December 2018	20,883
Change in accounting policy — HKFRS 16 *(Note 2.2)*	(20,883)
Balance as at 1 January 2019	–

16 Leases

(a) Amounts recognised in the consolidated balance sheet

	As at 31 December 2019 RMB'000	As at 1 January 2019* RMB'000
Right-of-use assets		
Land use rights	48,341	20,883
House leasing	1,563	–
Total right-of-use assets	49,904	20,883
Lease liabilities		
Current	753	–
Non-current	832	–
Total lease liabilities	1,585	–

* *For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to Note 2.2.*

As at 31 December 2019, land use rights with net book value of RMB5,343,000 (31 December 2018: RMB1,297,000) (Note 29) have been pledged as security for bank borrowings of the Group amounting to RMB55,000,000 (31 December 2018: RMB35,000,000) (Note 26).

(b) Amounts recognised in the consolidated statement of comprehensive income

	For the year ended December 2019 RMB'000	2018 RMB'000
Amortisation charge of right-of-use assets		
Land use rights	1,145	–
House leasing	586	–
	1,731	–
Interest expense (included in finance cost)	70	–
Expense relating to short-term leases	2,121	–

The total cash outflow for leases in 2019 was RMB2,696,000.

17 Investment properties

	RMB'000
Cost	
As at 31 December 2018	–
Transfer from property, plant and equipment	14,709
Transfer from right-of-use assets	11,304
Cost as at 31 December 2019	26,013
Accumulated depreciation	
As at 31 December 2018	–
Transfer from property, plant and equipment	(12,147)
Transfer from right-of-use assets	(3,842)
Accumulated depreciation as at 31 December 2019	(15,989)
Impairment loss	
As at 31 December 2018	–
Transfer from property, plant and equipment	(65)
Transfer from right-of-use assets	–
Accumulated impairment loss as at 31 December 2019	(65)
Net value as at 31 December 2018	–
Net value as at 31 December 2019	9,959

During the year ended 31 December 2019, certain property, plant and equipment and right-of-use asset (land use rights) situated in the PRC with carrying amounts of RMB9,959,000 was transferred to investment properties as the management had changed the use of these assets.

18 Trade and other receivables

(a) Trade and other receivables

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Trade receivables due from third parties	**133,481**	113,883
Less: allowance for doubtful debts	**(264)**	(90)
	133,217	113,793
Notes receivable	**8,377**	8,000
Deposits paid	**6,517**	5,476
Advance to employees	**3,028**	1,485
Payments in advance	**2,194**	5,069
Others	**44**	85
	20,160	20,115
Total trade and other receivables	**153,377**	133,908

(b) Trade receivables pledged

As at 31 December 2019, the trade receivables amounting to RMB73,311,000 has been pledged as security for bank borrowings of the Group (As at 31 December 2018: none).

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
0 to 90 days	**132,241**	101,390
91 to 180 days	**953**	9,743
181 to 360 days	**153**	1,590
Over 360 days	**134**	1,160
	133,481	113,883

18 Trade and other receivables *(Continued)*

(c) Trade receivables by segment

Trade receivables by segment are as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Paper cigarette packages	**128,222**	109,164
Social product paper packages	**1,777**	4,719
Trading goods	**3,482**	–
	133,481	113,883

(d) Impaired trade receivables

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
At 1 January	**90**	101
Provision for impairment recognised during the year	**174**	4
Impaired receivables collected	**–**	(15)
At 31 December	**264**	90

18 Trade and other receivables *(Continued)*

(e) Past due but not impaired

As at 31 December 2019, trade receivables of RMB34,677,000 (31 December 2018: RMB16,169,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Up to 3 months	34,180	13,772
3 to 6 months	363	1,476
6 months to 1 year	–	785
Over 1 year	134	136
	34,677	16,169

19 Inventories

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Raw materials and packaging materials	47,757	50,238
Finished goods	91,613	99,208
Work in progress	9,675	11,240
Provision for inventories	(770)	(5,702)
	148,275	154,984

(a) Assigning costs to inventories

The costs of individual items of inventory are determined using weighted average costs. The cost of inventories recognised as expenses and included in 'cost of sales' amounted to RMB404,233,000 for the year ended 31 December 2019 (2018: RMB363,026,000) (Note 9).

(b) Amounts recognised in the consolidated statement of comprehensive income

No write-downs of inventories to net realisable value was recognised for the year ended 31 December 2019 (2018: RMB4,932,000).

20 Cash and cash equivalents and restricted cash

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Cash at bank and on hand	**160,199**	298,648
Less: restricted cash	**(84,300)**	(86,121)
Cash and cash equivalents	**75,899**	212,527

As at 31 December 2019, Hubei Golden Three Gorges, a subsidiary of the Group, pledged deposits of RMB84,300,000 (31 December 2018: RMB86,121,000) as collateral for issuance of note payables (Note 25).

21 Share capital

Ordinary shares, issued and fully paid:

As at 31 December 2018 and 2019	**Number of shares**	**Share capital** HKD'000	RMB'000
Authorised:			
Ordinary shares of HKD0.01 each	**2,000,000,000**	20,000	15,880
Issued and fully paid:			
Ordinary shares of HKD0.01 each	**300,000,000**	3,000	2,382

22 Other reserves

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

	Share premium RMB'000	Statutory reserves RMB'000	Foreign currency translation RMB'000	Special reserves RMB'000	Total RMB'000
At 1 January 2018	25,200	48,022	(166)	91,450	164,506
Appropriation to statutory reserves	–	2,264	–	–	2,264
Currency translation differences	–	–	(782)	–	(782)
Wavier of borrowings from a related party	–	–	–	2,962	2,962
At 31 December 2018	25,200	50,286	(948)	94,412	168,950
Appropriation to statutory reserves	**–**	**1,726**	**–**	**–**	**1,726**
Currency translation differences	**–**	**–**	**(1,154)**	**–**	**(1,154)**
At 31 December 2019	**25,200**	**52,012**	**(2,102)**	**94,412**	**169,522**

The special reserves represent waived borrowings due from a related party in 2018.

23 Retained profits

	2019 RMB'000	2018 RMB'000
As at 1 January	**38,050**	27,330
Net profit for the year	**4,222**	12,984
Transfer to statutory reserve (a)	**(1,726)**	(2,264)
As at 31 December	**40,546**	38,050

23 Retained profits *(Continued)*

(a) Statutory reserves

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

24 Deferred income tax

The analysis of deferred tax assets is as follows:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Deferred tax assets:		
— to be recovered within 12 months	**5,375**	5,593

Deferred tax assets	**Provisions** RMB'000	**Impairment losses** RMB'000	**Total** RMB'000
At 1 January 2018	165	3,744	3,909
(Credited)/charged to the consolidated statement of comprehensive income	(2)	1,686	1,684
At 31 December 2018	163	5,430	5,593
At 1 January 2019	**163**	**5,430**	**5,593**
Charged/(credit) to the consolidated statement of comprehensive income	**26**	**(244)**	**(218)**
At 31 December 2019	**189**	**5,186**	**5,375**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. As at 31 December 2019, the Group did not recognise deferred tax assets of approximately RMB3,240,000 (31 December 2018: RMB3,204,000) in respect of tax losses amounting to approximately RMB15,344,000 (31 December 2018: RMB13,906,000).

25 Trade and other payables

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Trade payables — due to third parties	137,730	189,434
Notes payable *(Note 20)*	168,000	175,390
Salary payables	9,053	9,214
Tax payables	2,787	7,667
Others	7,880	3,186
	187,720	195,457
Total trade and other payables	325,450	384,891

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

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Up to 6 months	136,024	171,660
6 months to 1 year	234	17,774
1 year to 2 years	1,472	–
	137,730	189,434

26 Borrowings

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Short-term bank borrowings — secured	**55,000**	35,000

As at 31 December 2019, short-term bank borrowings of RMB55,000,000 (31 December 2018: RMB35,000,000) of the Group were secured by the pledge of property, plant and equipment, land use rights, and trade receivables (Note 14, Note 16 and Note 18) of the Group.

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

	As at 31 December 2019	As at 31 December 2018
Fixed-rate borrowings	**5.66%**	6.02%

27 Convertible notes

In October 2017, the Company issued convertible notes at a total principal value of HKD120,000,000 (equivalent to approximately RMB101,424,000) with a coupon rate of 4.8% per annum and maturity date of 18 October 2019.

According to the agreement, the convertible notes could be converted into the Company's shares at the noteholder's option from the day following 180 days after the date of issue to the fourteenth day prior to and exclusive of the maturity date at their principal amount. The conversion price was HKD2.025 per share subject to certain adjustments. Some adjustment terms make the conversion option does not fulfil the "fixed-for-fixed" criteria and therefore the Company records the convertible notes as a liability. Any principal amount that remained outstanding upon maturity date should be redeemed.

The convertible notes were matured on 17 October 2019. The Company has redeemed all the convertible notes in the total amount of HKD120,000,000 (equivalent to approximately RMB108,001,000).

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

	2019 RMB'000
Fair value as at 1 January 2019	**105,802**
Fair value change recognised *(Note 7)*	**4,407**
Interest paid	**(5,069)**
Redemption of convertible notes	**(108,001)**
Currency translation differences	**2,861**
Fair value as at 31 December 2019	**–**

28 Dividend

The Board does not recommend the payment of dividend for the year ended 31 December 2019 (2018: none).

29 Assets pledged as security

The carrying amounts of assets pledged as security for note payables and borrowings are as follow:

	Note	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Current			
Restricted cash	*20*	**84,300**	86,121
Trade receivables	*18*	**73,311**	–
Total current assets pledged as security for borrowing		**157,611**	86,121
Non-current			
Property, plant and equipment	*14*	**19,410**	30,921
Land use rights	*16*	**5,343**	1,297
Total non-current assets pledged as security for borrowing		**24,753**	32,218
Total assets pledged as security for borrowing		**182,364**	118,339

30 Commitment

(a) Operating lease commitment — the Group as lessee

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within one year	**–**	207

(b) Capital commitment

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Property, plant and equipment	**4,490**	6,188

31 Notes to the consolidated statements of cash flow

(a) Reconciliation of profit before income tax to net cash (used in)/generated from operations

	Note	2019 RMB'000	2018 RMB'000
Profit before income tax		**9,831**	20,494
Adjustments for:			
Depreciation of property, plant and equipment	*14*	**13,958**	16,149
Amortisation of right-of-use assets	*16*	**1,731**	–
Amortisation of land use rights	*15*	**–**	605
Loss on disposal of property, plant and equipment	*7*	**428**	956
Finance costs	*8*	**2,206**	4,718
Recognition of impairment losses		**235**	13,548
Decrease/(Increase) in inventories	*19*	**11,641**	(9,992)
Fair value change of convertible notes	*6, 7*	**(4,407)**	(1,226)
(Increase)/Decrease in trade and other receivables		**(19,649)**	83,069
(Decrease)/Increase in trade and other payables		**(51,604)**	79,608
Cash (used in)/generated from operations		**(35,630)**	207,929

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

	Note	2019 RMB'000	2018 RMB'000
Net book amount			
— Property, plant and equipment	*14*	**3,190**	1,260
Losses on disposal of property, plant and equipment, net	*7*	**(428)**	(956)
Proceeds from disposal of property, plant and equipment		**2,762**	304

31 Notes to the consolidated statements of cash flow *(Continued)*

(c) Net debt reconciliation

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

Net debt	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	75,899	212,527
Borrowings — fixed interest rates	(55,000)	(35,000)
Convertible notes	–	(105,802)
Net debt	20,899	71,725

	Cash RMB'000	Liabilities from financing activities: Borrowings RMB'000	Liabilities from financing activities: Convertible notes RMB'000	Total RMB'000
Net debt as at 1 January 2018	193,938	(139,990)	(106,962)	(53,014)
Cash flows	14,354	104,990	–	119,344
Impact of cost of issuing convertible notes	–	–	4,871	4,871
Foreign exchange impact	4,235	–	(4,937)	(702)
Other non-cash movements	–	–	1,226	1,226
Net debt as at 31 December 2018	212,527	(35,000)	(105,802)	71,725
Cash flows	(139,567)	(23,534)	–	(163,101)
Repayment of convertible notes	–	–	108,001	108,001
Interest paid	–	3,534	5,069	8,603
Foreign exchange impact	2,939	–	(2,861)	78
Other non-cash movements	–	–	(4,407)	(4,407)
Net debt as at 31 December 2019	75,899	(55,000)	–	20,899

32 Related-party transactions

As at 31 December 2019, the Company's immediate holding company is Spearhead Leader Limited, which held 69.79% shares of the Company in issue and is wholly owned by Mr. Yang Yoong An.

The non-controlling interests of the Group is Hubei Three Gorges Tobacco Co., Ltd., which holds 17.14% share of Hubei Golden Three Gorges, a subsidiary of the Company.

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

Name of related party	Relationship
China Civil Aviation (Cayman) Investment Group Limited ("CCAI")	Former immediate holding company until 21 November 2018

(a) Transactions with related parties

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

(i) Key management compensation

	2019 RMB'000	2018 RMB'000
Key management compensation	1,345	635

(ii) Borrowings from the former immediate holding company

	2019 RMB'000	2018 RMB'000
CCAI	–	499

(iii) Borrowings waived by the former immediate holding company

	2019 RMB'000	2018 RMB'000
CCAI	–	2,962

33 Benefits and interests of directors

Directors, supervisors and chief executives' emoluments

The remuneration of every director, the chairman and the independent non-executive directors of the Company for the year ended 31 December 2019 and 2018 is set out below:

	For the year ended 31 December							
	2019				2018			
Name	Fees RMB'000	Salaries RMB'000	Retirement benefits RMB'000	Total RMB'000	Fees RMB'000	Salaries RMB'000	Retirement benefits RMB'000	Total RMB'000
Chairman								
Mr. Yang Yoong An (i)	406	–	–	406	–	–	–	–
Mr. Li Tie (ii)	–	–	–	–	88	–	–	88
Executive directors								
Mr. Liu Daoqi (iii)	–	–	–	–	88	–	–	88
Mr. Huang Erwei (iii)	–	–	–	–	88	–	–	88
Non-executive directors								
Mr. Feng Bin (iv)	250	–	–	250	–	–	–	–
Mr. Yang Fan (iv)	250	–	–	250	–	–	–	–
Independent non-executive directors								
Mr. Gong Jinjun	104	–	–	104	105	–	–	105
Mr. Zeng Shiquan	104	–	–	104	105	–	–	105
Mr. Wang Ping	148	–	–	148	126	–	–	126
	1,262	–	–	1,262	600	–	–	600

(i) Appointed as an executive director and the chairman of the Company on 18 February 2019.

(ii) Resigned from an executive director and the chairman of the Company on 18 February 2019.

(iii) Resigned from executive directors of the Company on 18 February 2019.

(iv) Appointed as executive directors of the Company on 18 February 2019.

34 Balance sheet and reserve movement of the Company

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
ASSETS		
Non-current assets		
Investment in a subsidiary	191,120	191,120
Current assets		
Amounts due from subsidiaries	6,666	2,964
Cash and cash equivalents	567	90,368
	7,233	93,332
Total assets	198,353	284,452
EQUITY		
Equity attributable to the owners of the Company		
Share capital	2,382	2,382
Reserves	217,263	218,024
Accumulated losses	(65,032)	(56,001)
Total equity	154,613	164,405
LIABILITIES		
Non-current liabilities		
Convertible notes	–	–
Current liabilities		
Trade and other payables	169	158
Amount due to subsidiaries	43,571	14,087
Convertible notes	–	105,802
	43,740	120,047
Total liabilities	43,740	120,047
Total equity and liabilities	198,353	284,452

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

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Accumulated losses RMB'000	Translation reserve RMB'000	Total RMB'000
Balance at 1 January 2018	2,382	25,200	191,120	(52,808)	(69)	165,825
Loss for the year	–	–	–	(3,193)	–	(3,193)
Other comprehensive loss	–	–	–	–	(1,335)	(1,335)
Others	–	–	3,108	–	–	3,108
Balance at 31 December 2018	2,382	25,200	194,228	(56,001)	(1,404)	164,405
Balance at 1 January 2019	**2,382**	**25,200**	**194,228**	**(56,001)**	**(1,404)**	**164,405**
Loss for the year	**–**	**–**	**–**	**(9,031)**	**–**	**(9,031)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**(761)**	**(761)**
Others	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2019	**2,382**	**25,200**	**194,228**	**(65,032)**	**(2,165)**	**154,613**

35 Subsequent Events

Following the outbreak of Coronavirus Disease 2019 ("the COVID-19 outbreak) in early 2020, the operation of Hubei Golden Three Gorges was suspended on 23 January 2020 as part of the Chinese government's countermeasures in containing the COVID-19 outbreak.

At this point in time, Hubei Golden Three Gorges has gradually resumed its operation starting from the mid-March 2020. However, the Group is not yet able to quantify the full financial impact. In the case of a prolonged coronavirus crisis, there may be a negative effect on the Group's 2020 financial results.

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December 2019

Consolidated Results

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**581,257**	567,126	530,000	516,074	495,089
Gross profit	**126,004**	122,481	117,151	103,314	99,974
Profit for the year	**7,450**	16,602	6,305	4,634	4,065

Consolidated Assets, Liabilities and Equity

			31 December		
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Assets					
Current assets	**461,851**	587,540	617,488	498,086	525,237
Non-current assets	**182,472**	195,430	164,180	190,838	207,258
Total assets	**644,323**	782,970	781,668	688,924	732,495
Liabilities					
Current liabilities	**383,721**	529,496	440,014	454,291	502,755
Non-current liabilities	**832**	–	106,962	4,043	3,896
Total liabilities	**384,553**	529,496	546,976	458,334	506,651
Equity					
Total equity	**259,770**	253,474	234,692	230,590	225,844