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

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1629

ANNUAL REPORT 2019

LEADING IN
INNOVATION
STRIVING FOR EXCELLENCE

CONTENTS

CORPORATE INFORMATION

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

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

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

Principal place of business in Hong Kong
Room A, 17th Floor
Capitol Centre Tower 2
28 Jardine's Crescent
Causeway Bay
Hong Kong

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

Company secretary
Mr. Lau Ka Ming

Authorised representatives
Mr. Chen Shuming
Mr. Lau Ka Ming

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

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

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

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

Hong Kong branch share registrar
Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

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

Legal adviser as to Hong Kong laws
Wan & Tang
23rd Floor
Somptueux Central
52 Wellington Street
Central, Hong Kong

Auditor
Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Stock code
1629

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Champion Alliance International Holdings Limited (the "Company" or "Champion Alliance International Holdings"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 ("Year").

In the past few years, the PRC government upheld its principles of industry upgrade and health policy. Besides its structural reform of industry supply that is centred around "three eliminations, one reduction and one improvement", the PRC government also introduced the "Healthy China 2030 Plan", setting its sights to reduce the smoking population aged 15 or over to 20% by year 2030. The general tobacco industry faced significant challenges as the Chinese economy will be put under downward pressure built up as a result of tightened market regulation and external factors such as China-US trade rift and geopolitical tension.

Despite various challenges, the Group followed the national policy direction and seized the key opportunities that emerge with the restructure of the tobacco industry by changing our product structure, researching for and launching new products, opening up new markets and stepping up efforts in sales and marketing. In general, the Group remains optimistic about the future prospects of the cigarette packaging industry. Leveraging our solid foundation, we are looking to gain a larger market share.

Besides, with the stable economic development in China, the living standard of consumers in Mainland China has been rising constantly, bringing a massive room for development and abundant business opportunities for sectors of household paper product, and new energy supply such as steam for industrial use, heating supply, and electricity supply. During the Year, the Group successfully launched its operations of processing, manufacturing and sale of household paper products, as well as sale of new energy (steam for industrial use, household heating, and electricity supply). These new operations promptly contributed revenue and profit.

During the Year, the Group's revenue was approximately RMB530.7 million, representing a year-on-year increase of approximately 144.0%. Gross profit amounted to approximately RMB75.7 million, representing a year-on-year increase of approximately 129.7%. Gross profit margin was approximately 14.3%. The Group successfully achieved a profit turnaround, with profit for the Year amounting to approximately RMB7.7 million (loss for the year in 2018 was approximately RMB4.6 million.

Looking ahead, the Group will continue to build a quality brand and uphold the core value of "Hundred-year Brand, Hundred-year Foundation". Faced with the challenges and difficulties brought by the outbreak of novel coronavirus, the Group will undertake a continuous assessment on the situation. It will actively reinforce its product research and marketing capability to boost our market position of the cigarette packaging business and expand the geographical coverage of our sales network, with a view to satisfying future demand. Meanwhile, we will further explore and diversify for new growth drivers, so as to create greater value for our shareholders and society in the long term.

CHAIRMAN'S STATEMENT

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

Chen Shuming
Chairman and Executive Director
Hong Kong, 15 May 2020

MANAGEMENT DISCUSSION AND ANALYSIS

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

MARKET REVIEW

In 2019, the PRC government extended its effort in the structural reform of tobacco market. In July 2019, the State Council issued the Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》) which suggested special actions including cigarette control, promotion of mental health and cancer prevention. Relevant tariffs, price adjustments and other integrated measures will also be studied to improve the effectiveness of smoking control. Therefore, the cigarette packaging business is expected to face greater challenge as the market anticipates tightened control over the tobacco industry.

Despite a slowdown in economic growth, China continued to witness growths in per capita GDP and income. According to National Bureau of Statistics of China, the country's household product and service consumption per capita in 2019 increased 4.8% year-on-year, while the added value of the industrial enterprises above designated size grew 5.7% year-on-year. In particular, China continued to be one of the largest household paper markets and the largest consumer of energy in the world. Therefore, we saw an enormous development potential for our new operations.

BUSINESS REVIEW

Sales and Marketing

In 2019, despite a decrease in cigarette demand caused by the overall tightened government control policy over the tobacco industry, the Group's sales revenue increased by approximately 144.0%, thanks to the earnest endeavours to maximise revenue made by our management and sales staff.

During the year, the Group continued to expand its cigarette packaging business into new markets such as Anhui Province and engage new customers in China. At the end of 2019, there were 6 projects in tender and negotiation stages.

Among all the projects that were under negotiation at the end of 2018, 3 of them were concluded in 2019, while another 2 projects were under implementation stage. Our new accounts are mainly scattered over Anhui and Jiangsu areas.

During the year, the Group hired a total of 12 sales representatives to formulate marketing strategies, devise marketing plans, manage sales business, organise cargo transportation and develop customer service models, in order to boost our sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Production Capacity of Cigarette Packaging Business

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

The below table sets forth the production capacity, actual production volume and utilisation rates of the production base in Yichang, Hubei Province for the year ended 31 December 2019 and their comparison with the corresponding period in 2018.

	Year ended 31 December	
	2019	2018
Production capacity (thousand metres)	**222,264**	222,264
Actual production volume (thousand metres)	**102,892**	106,808
Utilisation rate	**46.3%**	48.1%

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

Quality Control

For the year ended 31 December 2019, the Group obtained the certification and passed the third-party audit of environmental and occupational health safety management system in accordance with ISO14001:2015 and GB/T28001-2011.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the total revenue was approximately RMB530.7 million, an increase of RMB313.2 million over the total revenue of approximately RMB217.5 million for the corresponding period in 2018. Such increase was mainly attributable to the income contribution from the new energy supply and household paper product segments, which were launched since early 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of the Group's revenue for the years ended 31 December 2019 and 2018:

	For the year ended 31 December		
	2019	2018	**Change**
	RMB'000	*RMB'000*	%
Cigarette packaging products			
— transfer metallised paper	**213,770**	190,080	12.6%
— laminated metallised paper	**30,041**	26,677	12.6%
Processing service income	**7,815**	734	964.7%
New energy operation	**101,125**	–	N/A
Household paper products	**177,741**	–	N/A

Cigarette Packaging Business

For the year ended 31 December 2019, revenue of the cigarette packaging business was approximately RMB251.8 million (year ended 31 December 2018: RMB217.5 million), representing an increase of approximately 15.8% as compared with 2018. The increase in revenue was due to the Group's continued business development of new markets and new customers, as well as the increased procurement from existing customers.

Other Businesses

To enhance and reinforce its business, the Group launched other businesses in early 2019. Other businesses mainly include sale of household paper products, as well as sale of new energy (steam for industrial use, household heating, and electricity supply). Other businesses contributed revenue of approximately RMB278.9 million during the Year (year ended 31 December 2018: nil).

Gross Profit and Gross Profit Margin

The Group's gross profit increased from approximately RMB32.9 million for the year ended 31 December 2018 to approximately RMB75.7 million for the year ended 31 December 2019. The increase was mainly due to the increase in revenue. Gross profit margin decreased from approximately 15.1% for the year ended 31 December 2018 to approximately 14.3% for the year ended 31 December 2019. The decrease in gross profit margin was the result of (i) investment in new operations; and (ii) change of product mix.

Other Income and Gains, Net

For the year ended 31 December 2019, the Group's other income and gains, net mainly consisted of rental income, bank interest income and subsidy income. The net other income and gains were approximately RMB1.6 million for the year ended 31 December 2018 as compared to approximately RMB1.3 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in rental income for the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

During the period under review, selling and distribution expenses mainly consisted of (i) costs of transportation expenses, (ii) staff costs, (iii) entertainment expenses, (iv) travelling expenses and (v) other expenses. The Group's selling and distribution expenses increased by approximately 64.2% from approximately RMB14.2 million for the year ended 31 December 2018 to approximately RMB23.4 million for the year ended 31 December 2019. The increase in selling and distribution expenses was mainly due to the increased sales of core operation and the investment in trading of household paper products business.

Administrative Expenses

For the year ended 31 December 2019, administrative expenses mainly consisted of (i) staff costs, (ii) depreciation and amortisation, (iii) entertainment expenses and (iv) other expenses. Administrative expenses increased from approximately RMB16.1 million for the year ended 31 December 2018 to approximately RMB23.8 million for the year ended 31 December 2019. The increase in administrative expenses of the Group was mainly due to additional expenses for new businesses.

Other Expenses, Net

For the year ended 31 December 2019, the Group's other expenses consisted of research and development expenses, exchange differences, loss of raw and waste materials sold and impairment of Group's assets. The net other expenses were approximately RMB9.9 million for the year ended 31 December 2019 as compared to approximately RMB8.4 million for the year ended 31 December 2018. The increase was mainly due to the impairment provision on trade receivables for the year.

Finance Costs

Finance costs consisted of interest expenses from bank and other borrowings and interest on lease liabilities. The finance costs were approximately RMB603,000 (for the year ended 31 December 2018: RMB975,000). The decrease was mainly attributable to the decrease in discount charges on bank acceptance notes.

Income Tax (Expense)/Credit

The Group's income tax expense was approximately RMB9.4 million for the year ended 31 December 2019. The Group's income tax credit was approximately RMB1.3 million in 2018.

Profit/(Loss) Attributable to Shareholders of the Company

For the year ended 31 December 2019, the Group's profit attributable to shareholders of the Company was approximately RMB7.7 million. Loss attributable to shareholders of the Company for the year ended 31 December 2018 was approximately RMB4.6 million. The profit turnaround was mainly attributable to profit contributed by new businesses which the Group launched during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Net Current Assets

The Group recorded net current assets of approximately RMB69.1 million as at 31 December 2019, while the net current assets as at 31 December 2018 was approximately RMB66.2 million.

Borrowings and Gearing Ratio

The total borrowings of the Group as at 31 December 2019 were approximately RMB61.5 million (as at 31 December 2018: RMB15.0 million). The Group's gearing ratio increased from approximately 18.1% as at 31 December 2018 to approximately 52.8% as at 31 December 2019. The increase in the gearing ratio was primarily a result of the the increase in total borrowings. Gearing ratio was calculated by dividing total debt (which mainly consisted of bank and other borrowings and lease liabilities) by total equity as at the dates indicated and multiplied by 100%.

Capital Expenditure

During the year ended 31 December 2019, the Group's total capital expenditure amounted to approximately RMB11.2 million, which was mainly used in assets under construction (year ended 31 December 2018: RMB352,000).

Treasury Policies

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

Capital Structure

The capital structure of the Group consists of equity attributable to owners of the Company, which comprises issued share capital and reserves. During the year ended 31 December 2019, there had been no change in the number of issued share in the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge on Assets

The Group's borrowings and notes payables were secured by its property, plant and equipment, investment property, right-of-use assets, restricted cash and trade receivables. The following table sets forth the carrying amounts of assets pledged to secure the bank borrowings and bills payables:

	As at 31 December 2019	As at 31 December 2018
	RMB'000	*RMB'000*
Property, plant and equipment	**15,020**	20,892
Investment property	**4,614**	4,878
Right-of-use assets	**11,039**	–
Prepaid land lease payments	**–**	11,767
Trade receivables	**–**	24,940
Restricted cash	**17,475**	38,120
Total	**48,148**	100,194

In addition to the above, at 31 December 2019, the Group has pledged the equity interest in a wholly-owned subsidiary to secured the other borrowing of the Group.

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

Save as disclosed in this report, there were no significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group for the year ended 31 December 2019 (year ended 31 December 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 Risk

The Group's transactions were mainly conducted in RMB, the functional currency of certain subsidiaries of the Group, and the major receivables and payables were denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances and cash and other payables maintained in Hong Kong dollars ("HK$"). The Group did not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business during the year ended 31 December 2019 (year ended 31 December 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Human Resources and Remuneration

As at 31 December 2019, the Group employed 250 employees (as at 31 December 2018: 152) with total staff costs of approximately RMB23.0 million incurred for the same year (for the year ended 31 December 2018: approximately RMB16.6 million). The increase of staff costs of the Group was mainly due to the increase in number of employees and directors' emoluments. The Group's remuneration packages are generally structured with reference to market terms and individual merits.

Final Dividend

The Board proposed not to declare any final dividend for the year ended 31 December 2019 (year ended 31 December 2018: nil).

Use of Net Proceeds from the Listing

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

As at 31 December 2019, the net proceeds from the Listing has been utilised as follows:

Use of net proceeds from the Listing	Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus	Approximate % of total actual net proceeds	Actual amount utilised from the Listing Date up to 31 December 2019	Balance as at 31 December 2019	Expected timeline for the remaining use of net proceeds *(Note)*	
					For the year ending 31 December 2020	For the year ending 31 December 2021
	RMB'000		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,568	19,735	17,766	1,969
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,334	4,304	4,078	226
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–	–	–
Working capital and general corporate purposes	3,758	10%	3,758	–	–	–
	37,585	100%	13,546	24,039	21,844	2,195

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

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, unutilised proceeds amounted to approximately HK$27.0 million (equivalent to approximately RMB24.0 million), which will be invested in production plant, equipment upgrade and technical development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan as to use of net proceeds.

Future Plans for Material Investments or Capital Assets

Save for the business plan disclosed in the Prospectus or in this report, there is no other plan for material investments or capital assets as at 31 December 2019.

Capital Commitments

As at 31 December 2019, the Group did not have any capital commitments in terms of acquisition of property, plant and equipment (as at 31 December 2018: nil).

PRINCIPAL RISKS AND UNCERTAINTIES

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

Increasing regulated industry

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

PRC legislative control and awareness of health concerns

In recent years, the PRC government has promulgated a series of legislative and regulatory control on the cigarette industry including the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which aims to tighten control of the Chinese cigarette industry and to curb the demand for cigarette consumption due to concern for public health. Such tightened legislative and regulatory control includes regulations limiting smoking in public areas, prohibition on certain types of tobacco advertising, as well as labelling requirements for cigarette packages. In additions, the PRC government promulgated the Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》), pursuant to which a number of actions such as smoking control, promotion of mental health and cancer prevention will be introduced. Integrated measures including tariff and price adjustment will be studied to improve the effectiveness of smoking control.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Dependence on cigarettes prices and economic conditions in China

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

Intense competition

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

Reliance on major customers

For the years ended 31 December 2018 and 2019, revenue from our five largest customers amounted to approximately RMB166.0 million and approximately RMB221.9 million, respectively, which accounted for approximately 76.3% and approximately 41.8% of our total revenue for the respective periods.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Strategy	KPIs	Performance
Maximise value for the Shareholders	Gross profit margin = 14.3% (2018: 15.1%)	The Group managed to maintain stable operational performance during the year with effective cost control measures and continued to expand into new markets.
Improve the Group's liquidity	Cash and cash equivalents = RMB35.7 million (2018: RMB5.9 million) Current ratio = 1.3 (2018: 1.4) Gearing ratio = 52.8% (2018: 18.1%)	The Group adopts a policy to regularly monitor the liquidity requirements of the Group so as to ensure that it maintains sufficient reserves of cash and adequate committed credit facilities from major financial institutions to meet the liquidity requirements of the Group in the short and long term.
Strive for the "zero harm" safety goal	Accident rate = 0% (2018: 0%)	During the year, the Group has put adequate resources and efforts to uphold and improve its safety management system to reduce its risks related to safety issues. The Company successfully obtained the certification in OHSAS18000 Occupational Health and Safety Assurance System.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

Hampered by the outbreak of the novel coronavirus (COVID-19) (the "**COVID-19 Outbreak**"), the operations of Hubei Mengke Paper Co., Ltd (湖北盟科紙業有限公司) ("**Hubei Mengke**") which is a subsidiary of the Company located in Yichang of Hubei Province, and engages in the production and processing of cigarette packaging products, has been suspended after the statutory holidays for Chinese New Year as part of the Chinese government's countermeasures in containing the outbreak. Hubei Mengke has gradually resumed its operation starting from the mid-March 2020.

To proactively fight the disease, the Group has made the employees' health as first priority and has taken a number of preventive measures. We follow the government's measures and suggestions (including staying at home and social distancing) to reassign working hours of our staff. The Group will strive to maintain a close communication with existing suppliers, customers and government authorities to gain a better understanding of the impact on them, as well as to communicate with them about the resumption of Hubei Mengke's operation. We will consider different solutions such as changing suppliers, re-adjusting orders, production and delivery when necessary, so as to prevent our supply chain from any severe impact exerted by the disease. Currently, the actual impact created by the COVID-19 Outbreak on the Group and the industry is difficult to estimate. Nevertheless, the Group will continue to monitor the development and respond quickly. Fortunately, the Group has not encountered any capital or financial pressure due to the disease. The Company's business in Shandong Province, which the Company operates through its subsidiaries Champion Huaying Shandong New Energy Co., Ltd (冠均華盈山東新能源有限公司) ("**Shandong Huaying**") and Champion (Shandong) Trading Co., Ltd (冠均(山東)貿易有限公司) ("**Shandong Trading**"), has not been significantly affected by the COVID-19 Outbreak. The Directors believe that the COVID-19 Outbreak will not have significant adverse effect on its operations in Shandong Province going forward.

Looking forward, the tobacco market anticipates government control policy over the industry in the coming years. Despite such policy direction is set to lower the demand for tobacco related products, the Group will continue to consolidate its market position through technique innovation and greater marketing and promotion efforts. The Group will focus on the market development in Jiangsu Province, Anhui Province and other markets in China. The Group is still optimistic about the outlook of the cigarette packaging industry.

While solidifying our cigarette packaging business, the Group will continue to explore its household paper product and new energy operations, adopt diversification and tap the enormous room for development brought by the growth in demand for domestic consumption and the rise of living standard. Through our professional management team of the new energy business including supply of steam for industrial use, household heating and electricity supply, we aim to create huge growth potential. The Group will continue to strive for better results and thus to maximise returns to shareholders and society through its peerless dedication to optimise our businesses.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders of the Company (the "Shareholders") this report together with the audited consolidated financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities and other particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements in this report.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 68 of this report.

SEGMENTAL INFORMATION

The segmental information of the Group are set out in note 4 to the consolidated financial statements.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2019 are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business, including the likely future developments, principal risks and uncertainties faced by the Group, analysis using key financial performance indicators, are discussed under the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this report. Such discussion forms an integrate part of this report. In addition, the financial risk management objectives and policies of the Group are set out in note 31 to the consolidated financial statements.

FINAL DIVIDEND

The Board proposed not to declare any final dividend for the Year (2018: Nil).

DIRECTORS' REPORT

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company is scheduled to be held on Wednesday, 24 June 2020 (the "2020 AGM").

For the purpose of determining Shareholders who are entitled to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Thursday, 18 June 2020 to Wednesday, 24 June 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2020 AGM, all completed share transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 17 June 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 41.8% (2018: 76.3%) of the total sales for the Year and the sales attributable to the largest customer included therein accounted for approximately 11.9% of the total sales for the Year (2018: 22.9%).

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 66.5% (2018: 64.1%) of the total purchases for the Year and the purchase attributable to the largest supplier included therein accounted for approximately 37.9% of the total purchases for the Year (2018: 24.5%).

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

RELATIONSHIP WITH STAKEHOLDERS

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

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

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

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

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the consolidated financial statements in this report.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group as at 31 December 2019 are set out in note 24 to the consolidated financial statements in this report.

SHARE CAPITAL

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

Details of the movement of the Company's share capital are set out in note 26 to the consolidated financial statements in this report.

SUMMARY FINANCIAL INFORMATION

A five-year financial summary of the results and the assets and liabilities of the Group is set out on page 128 of this report.

PRE-EMPTIVE RIGHTS

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

RELIEF OF TAXATION

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

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

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

RESERVES

Movements in the reserves of the Company and the Group during the Year are set out in notes 34 and 27 to the consolidated financial statements in this report, respectively.

DIRECTORS' REPORT

USE OF NET PROCEEDS FROM THE LISTING

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

As at 31 December 2019, the net proceeds from the Listing has been utilised as follows:

					Expected timeline for the remaining use of net proceeds *(Note)*	
Use of net proceeds from the Listing	**Adjusted use of net proceeds in the manner and proportion as stated in the Prospectus**	**Approximate % of total actual net proceeds**	**Actual amount utilised from the Listing Date up to 31 December 2019**	**Balance as at 31 December 2019**	**For the year ending 31 December 2020**	**For the year ending 31 December 2021**
	RMB'000		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Purchase and upgrade of production equipment, as well as expansion and maintenance of the production facilities	23,303	62%	3,568	19,735	17,766	1,969
Expansion and upgrade of non-production facilities, including but not limited to warehouse and other supporting facilities	5,638	15%	1,334	4,304	4,078	226
Business development expenditures, including expanding the geographical coverage of sales network and research and development expenditures relating to the purchase of research and development equipment and to future research and development projects	4,886	13%	4,886	–	–	–
Working capital and general corporate purposes	3,758	10%	3,758	–	–	–
	37,585	100%	13,546	24,039	21,844	2,195

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

As at 31 December 2019, unutilised proceeds amounted to approximately HK$27.0 million (equivalent to approximately RMB24.0 million), which will be invested in production plant, equipment upgrade and technique development. The unutilised portion of the net proceeds have been placed as interest bearing deposits with licensed banks as restricted cash in the PRC. As at the date of this report, the Directors do not anticipate any change to the plan as to use of net proceeds.

DIRECTORS' REPORT

CONNECTED AND RELATED PARTY TRANSACTIONS

During the Year, there was no connected transaction or continuing connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules. Material related party transactions entered into by the Group during the Year are set out in note 29 to the consolidated financial statements in this report. These related party transactions did not constitute connected transactions or continuing connected transactions within the meaning of the Listing Rules.

DIRECTORS

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

Executive Director
Mr. Chen Shuming *(Chairman)*
Mr. He Guangrui *(Joint Chief Executive Officer)*
Mr. Chen Xiaolong *(Joint Chief Executive Officer)*
Mr. Hu Enfeng
Mr. Zhang Shihua
Ms. Chen Xiaoyan (appointed on 27 June 2019)

Independent non-executive Directors
Mr. Chen Hua
Mr. Zhao Zhendong
Mr. Chan Yee Ping Michael

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

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

In accordance with the above provisions of the Articles, Mr. He Guangrui, Mr. Chen Xiaolong, Ms. Chen Xiaoyan and Mr. Chan Yee Ping Michael will retire by rotation at the 2020 AGM and, Mr. Chen Xiaolong, Ms. Chen Xiaoyan and Mr. Chan Yee Ping Michael, being eligible, will offer themselves for re-election at the 2020 AGM.

DIRECTORS' REPORT

The Board has been informed by Mr. He Guangrui that he will not offer himself for re-election as an executive Director at the AGM due to his other commitments. Mr. He confirmed that he has no disagreement with the Board and there is no other matter that needs to be brought to the attention of the shareholders of the Company in relation to his retirement. The Board would also like to take this opportunity to express its sincere gratitude to Mr. He for his valuable contributions to the Company.

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Director has entered into a service agreement with the Company for an initial fixed term of three years commencing from their respective date of appointment, namely 20 November 2018, 10 December 2018 or 27 June 2019. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

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

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

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are set out on pages 58 to 62 of this report.

EMOLUMENT POLICY

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

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

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INDEMNITIES AND INSURANCE

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

RETIREMENT BENEFIT SCHEMES

Details of the employer's costs charged to the consolidated profit or loss for the Year and the retirement benefit schemes of the Group are set out in note 8 to the consolidated financial statements in this report.

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the Company's distributable reserves as at 31 December 2019 amounted to approximately RMB79.5 million.

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

As at 31 December 2019, the following Directors or chief executive of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules:

DIRECTORS' REPORT

Interests in the Company

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

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

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

Interests in Associated Corporation of the Company

As at 31 December 2019, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

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

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

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

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

Name	Capacity	Total number of Shares held (long position)	Approximate percentage of interests
Champion Alliance International Corporation	Beneficial owner *(Note 1)*	350,000,000	70.00%
Ms. Chen Xiuchun	Interest of spouse *(Note 2)*	350,000,000	70.00%
CM Asset Management (Hongkong) Company Limited	Investment manager	45,704,000	9.14%
Shareholder Value Fund	Beneficial owner	45,704,000	9.14%
Million Success Group Corporation	Beneficial owner *(Note 3)*	25,000,000	5.00%
Ms. Tao Wei	Interest of spouse *(Note 4)*	25,000,000	5.00%

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2019, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

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

DIRECTORS' REPORT

Purpose of the Scheme

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

Qualifying Participants

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

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

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

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

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

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

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

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

Maximum Number of the Shares

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

Maximum Entitlement of Each Eligible Participant

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

Time of Acceptance and Exercise of an Option

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

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

Subscription Price for Shares

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

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

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

(iii) the nominal value of a Share.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

CONTROLLING SHAREHOLDERS' INTEREST

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

DIRECTORS' REPORT

CORPORATE GOVERNANCE

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

DIRECTORS' REPORT

AUDIT COMMITTEE

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

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

DONATIONS

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

CONFIRMATION OF INDEPENDENCE

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at 31 December 2019 and up to the date of this report.

IMPORTANT EVENT AFTER THE REPORTING PERIOD

The COVID-19 Outbreak has affected the operating performance and financial position of the Group, mainly due to suspension of the Group's operation in Hubei province of China, travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in delivery of products to customers. Meanwhile, due to the inherent nature and unpredictability of future development of the virus and market sentiment, the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. Accordingly, the financial impact of the COVID-19 Outbreak to the Group cannot be reasonably estimated at this stage. The Directors will keep continuous attention to the situation of the COVID-19 Outbreak and react actively to minimise its impact on the financial position and operating performance of the Group.

Save as disclosed above, there was no material subsequent event after 31 December 2019 and up to the date of this report which requires disclosure.

DIRECTORS' REPORT

AUDITOR

The financial statements for the years ended 31 December 2016, 2017 and 2018 were audited by PricewaterhouseCoopers.

During the year under review, the Board, by a written resolution of the Company passed on 11 November 2019, appointed Ernst & Young as the Company's auditor to fill the casual vacancy following the resignation of PricewaterhouseCoopers and to hold office until the conclusion of the forthcoming annual general meeting of the Company. Details of the change of auditor are, among other things, set out in the Company's announcements dated 11 November 2019 and 13 November 2019.

An ordinary resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as the auditor of the Company.

On behalf of the Board
Chen Shuming
Chairman and executive Director

Hong Kong, 15 May 2020

CORPORATE GOVERNANCE REPORT

OVERVIEW

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

THE BOARD OF DIRECTORS

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

The Board comprises the following Directors:

Executive Director
Mr. Chen Shuming *(Chairman)*
Mr. He Guangrui *(Joint Chief Executive Officer)*
Mr. Chen Xiaolong *(Joint Chief Executive Officer)*
Mr. Hu Enfeng
Mr. Zhang Shihua
Ms. Chen Xiaoyan (appointed on 27 June 2019)

Independent non-executive Directors
Mr. Chen Hua
Mr. Zhao Zhendong
Mr. Chan Yee Ping Michael

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

In accordance with the above provisions of the Articles, Mr. He Guangrui, Mr. Chen Xiaolong, Ms. Chen Xiaoyan and Mr. Chan Yee Ping Michael will retire by rotation at the 2020 AGM and, Mr. Chen Xiaolong, Ms. Chen Xiaoyan and Mr. Chan Yee Ping Michael, being eligible, will offer themselves for re-election at the 2020 AGM.

CORPORATE GOVERNANCE REPORT

The Board has been informed by Mr. He Guangrui that he will not offer himself for re-election as an executive Director at the AGM due to his other commitments. Mr. He confirmed that he has no disagreement with the Board and there is no other matter that needs to be brought to the attention of the shareholders of the Company in relation to his retirement. The Board would also like to take this opportunity to express its sincere gratitude to Mr. He for his valuable contributions to the Company.

Ms. Chen Xiaoyan is the spouse of Mr. Chen Xiaolong and also the daughter-in-law of Mr. Chen Shuming. Save as disclosed, there are no financial, business, family or other material relationships among the Directors. The biographical details of the Directors are set out in the section entitled "Biographies of Directors and Senior Management" in this report.

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

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

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

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

Name of Directors	**Attending training course(s)/ reading materials**
Mr. Chen Shuming	✓
Mr. He Guangrui	✓
Mr. Chen Xiaolong	✓
Mr. Hu Enfeng	✓
Mr. Zhang Shihua	✓
Ms. Chen Xiaoyan (appointed on 27 June 2019)	✓
Mr. Zhan Qingtao (resigned on 27 June 2019)	✓
Mr. Chen Hua	✓
Mr. Zhao Zhendong	✓
Mr. Chan Yee Ping Michael	✓

BOARDING ATTENDANCE

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

During the Year, the Board convened 7 Board meetings and the Company convened an annual general meeting ("2019 AGM") and an extraordinary general meeting ("EGM"). The attendance records of the respective Directors are set out below:

	Attendance/Number of meetings		
	Board meetings	2019 AGM	EGM
Mr. Chen Shuming	7/7	1/1	0/1
Mr. He Guangrui	7/7	1/1	1/1
Mr. Chen Xiaolong	7/7	1/1	0/1
Mr. Hu Enfeng	7/7	1/1	0/1
Mr. Zhang Shihua	7/7	1/1	0/1
Ms. Chen Xiaoyan (appointed on 27 June 2019)	3/7	*	*
Mr. Zhan Qingtao (resigned on 27 June 2019)	4/7	1/1	0/1
Mr. Chen Hua	7/7	1/1	0/1
Mr. Zhao Zhendong	7/7	1/1	0/1
Mr. Chan Yee Ping Michael	7/7	1/1	0/1

* No meeting was held after the appointment during the Year.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SERVICE AGREEMENTS

Each of the executive Director has entered into a service agreement with the Company for an initial fixed term of three years commencing from 20 November 2018, 10 December 2018 or 27 June 2019. The term of service shall be renewed and extended automatically by three years on the expiry of such initial term and on the expiry of every successive period of three years thereafter, unless terminated by either party thereto in accordance with the terms thereof.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

The members of the Audit Committee should meet at least twice a year. During the Year, the Audit Committee had held 3 meetings, during which the Audit Committee had reviewed, inter alia, the external auditor's statutory audit scope for the Year and their independence; the consolidated financial statements of the Group for the year ended 31 December 2018 and for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Group, as well as the risk management and internal control systems of the Group. The Audit Committee also held a meeting in November 2019 for the resignation and appointment of the external auditors.

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

	Number of meetings held during the Year
Mr. Chan Yee Ping Michael *(Chairman)*	3/3
Mr. Chen Hua	3/3
Mr. Zhao Zhendong	3/3

REMUNERATION COMMITTEE

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

The members of the Remuneration Committee should meet at least once a year. During the Year, the Remuneration Committee had held 4 meetings, during which the Remuneration Committee had reviewed, inter alia, the remuneration packages for individual executive Directors and senior management and had made recommendations to the Board. The attendance records of the respective members of the Remuneration Committee are set out below:

	Number of meetings held during the Year
Mr. Chen Hua *(Chairman)*	4/4
Mr. Zhao Zhendong	4/4
Mr. Chen Shuming	4/4

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

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

Nomination Criteria

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

(a) reputation for integrity;

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

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

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

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

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

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

During the Year, Ms. Chen Xiaoyan was appointed as executive Director.

Nomination Procedures

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

Appointment of New and Replacement Directors

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

CORPORATE GOVERNANCE REPORT

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

Re-election of Directors and Nomination from Shareholders

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

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

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

	Number of meetings held during the Year
Mr. Chen Shuming *(Chairman)*	2/2
Mr. Zhao Zhendong	2/2
Mr. Chan Yee Ping Michael	2/2

BOARD DIVERSITY POLICY

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

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

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

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

1. at least one-third of the members of the Board shall be independent non-executive Directors; and
2. at least one of the members of the Board shall have obtained accounting or other professional qualifications.

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

DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

EXTERNAL AUDITOR'S REMUNERATION

The Company has engaged Ernst & Young as its external auditor for the Year until the conclusion of the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the Year, the fees paid/payable to Ernst & Young in respect of its services relating to the audit of the consolidated financial statements of the Company for the Year and the preliminary results announcement of the Group for the year were RMB1.78 million and RMB20,000, respectively.

DIVIDEND POLICY

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

COMPANY SECRETARY

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

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

ALTERATIONS TO THE CONSTITUTIONAL DOCUMENTS

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

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

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

Participation at General Meetings

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM"). The 2019 AGM was held on 27 May 2019. The 2020 AGM is scheduled to be held on 24 June 2020. A circular containing among other things, further information relating to the 2020 AGM will be dispatched to the shareholders in accordance with the Articles and the Listing Rules.

Right to Put Enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the joint chief executive officer of the Company.

CORPORATE GOVERNANCE REPORT

Convening of EGM and Putting Forward Proposals at General Meetings

In accordance with the article 64 of the Articles, the Board may whenever it thinks fit convene extraordinary general meetings. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary of the Company at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Nomination of Director

In accordance with the article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Company's principal office in Hong Kong at Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong or at the Hong Kong branch share registrar of the Company at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. The period for lodgement of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING SCOPE, MATERIALITY AND PERIOD

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

Reporting Principle and Scope

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

As identified by the materiality assessment, saved as otherwise stated, the ESG Report covers the overall performance, risks, strategies, measures and commitments of the Group in four areas, namely, working environment quality, environmental protection, operating practices and community investment, for the Group's principal business operations of (i) manufacture of metallised packaging paper for cigarette package manufacturers in the PRC, (ii) supply of new energy (steam for industrial use, household heating, and electricity supply), and (iii) household paper products during the reporting period for the year ended 31 December 2019 ("Reporting Period").

This ESG Report covers data and information of the Group's headquarters and its self-owned production facility for cigarette packaging products in Yichang City, Hubei Province, the plants and offices in Shandong Province (for the operation of new energy supply and household paper products), and Hong Kong office. All the information contained herein comes from official documents or statistical reports of the Group. This report has been reviewed and approved by the Board of Directors.

Regarding the corporate governance structure of the Group and other relevant information, please refer to the Corporate Governance Report on page 30 to 40 in this annual report.

Materiality Assessment

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

Stakeholders' Feedback

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

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

Postal address:	Room A, 17th Floor, Capitol Centre Tower 2, 28 Jardine's Crescent, Causeway Bay, Hong Kong
Tel No.:	(852) 2327 8009
Fax No.:	(852) 2327 8090

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING ON ENVIRONMENTAL ASPECTS

The rising environmental standards and the concerns over coping with climate change are the world's prevailing trend. The PRC government has also imposed stricter environmental requirements for all industries. In order to meet the requirements of the PRC government and clients and establish positive corporate image, and to make a contribution to the cause, the Group has formulated environmental protection policies and guidelines to enhance our environmental protection management, including forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of environmental protection policies and guidelines.

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

Meanwhile, to seize the opportunities arising from the increasing living standard of Chinese people, and to foster a diversification of business, the Group launched the operations of new energy supply and household paper products, with a consistent set of environmental philosophy and requirements.

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

Emission

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse Gas and Exhaust Gas Emissions

During the production process, fuel and electricity consumption for the operating of machines produces direct and indirect greenhouse gas emissions. The Group has formulated a stringent production control system, with an aim to reducing energy consumption through comprehensive production management. The Group also strives to improve its greenhouse gas emission level by enhancing production environment, including electricity efficiency at manufacturing base, building design in terms of natural lighting accessibility and reforestation, etc. We ensure that our exhaust gas emissions are within the maximum limit through operating our exhaust gas treatment facilities in a strict manner. In future, we will proactively explore the use of clean energy when feasible, and reduce our reliance on traditional fossil fuel, thereby lower our indirect greenhouse gas and exhaust gas emissions.

Our manufacturing base in Shandong Province has obtained pollutant emission permit and strictly adopts an ultra-low emission standard; therefore, it is allowed to emit sulfur oxide, nitrogen oxide, smoke and other industrial exhaust gas into air.

In addition, we also pay attention to the environmental risks along our supply chain as we attach the same importance to the production environment of our suppliers and business partners. Through ways such as daily communication and site visit, we gain a better understanding and assurance of their environmental control levels. Suitable arrangements are made for the delivery of raw materials from our suppliers and delivery of products to our customers, including optimising travelling routes and regular check of vehicles, so as to minimise exhaust gas emissions produced during the delivery process.

Sewage Discharge

We have obtained the wastewater and pollutant discharge permit for our manufacturing bases in Hubei Province and Shandong Province during the Reporting Period, which allows us to discharge industrial waste water and sewage to water legally when conducting production activities. Wastewater produced during operation is mainly domestic sewage, which is treated through grease trap and septic tank prior to being discharged to municipal wastewater system and being processed in wastewater treatment facilities. In Hubei manufacturing base, during the manufacturing procedures, a small amount of wastewater is produced after the cleaning of equipment. The wastewater is treated in our wastewater treatment facilities before discharge. All these procedures meet the requirements stipulated by relevant national laws and regulations. In addition, industrial wastewater produced in Shandong manufacturing base is reused without discharging.

Waste Treatment

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, we gradually introduce the "cradle-to-cradle" idea to our household paper product operation in terms of packaging design and selection of materials, etc. Under reasonable circumstances, we use raw materials that are more environmental-friendly and packaging materials that are reusable or degradable, so that we are able to reduce wastes from our products. Our philosophy is to gradually put reusable value to ocean waste and landfill materials, and raise consumers' awareness of environmental protection and responsible disposal of waste, with a view to making contribution to waste reduction.

		Quantity		
		2019		2018
Emissions	**Unit**	**New Energy**	**Cigarette Packaging**	
Greenhouse gas				
— Scope 1 — direct emission fuel consumption	tonne (CO2 equivalents)	6.7	N/A	N/A
— Scope 2 — indirect emission electricity consumption	tonne (CO2 equivalents)	12,876.20	4,833.93	4,682.38
— Scope 3 — other indirect emission				
(i) paper consumption	tonne (CO2 equivalents)	N/A	N/A	0.9261
(ii) water consumption	tonne (CO2 equivalents)	16.6	0.9878	13.6
Exhaust gas				
— Nitrogen oxide	gram	6,450,000	N/A	N/A
— Sulfur oxide	gram	3,470,000	N/A	N/A
— Particulate matter	gram	595,000	N/A	N/A
Other emissions				
— Wastewater	tonne	N/A	22,041	13,600
— Hazardous wastes	tonne	N/A	30	52
— Non-hazardous wastes	tonne	N/A	20	21

* No available data from the household paper product operation

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

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

Energy and Water Conservation

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

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

Waste Reduction

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Resource Consumption Data:

		Quantity		
		2019		2018
Emissions	**Unit**	**New Energy**	**Cigarette Packaging**	
Water	tonne	N/A	29,388	24,000
Electricity	kWh	13,950,359	5,237,194	5,073,000
Paper	tonne	N/A	0.315	0.336
Coal	tonne	90,627	N/A	N/A
Petroleum and gasoline (equipment and machines)	litre	256,940	N/A	N/A
Petroleum and gasoline (vehicles and other transportation tools)	litre	N/A	N/A	N/A
Packaging materials (plastic)	tonne	N/A	9.542	12.782
Packaging materials (corrugated)	tonne	N/A	3.1	3.7
Sodium hydroxide	kilogram	179,430	N/A	N/A
Detergent	kilogram	157,700	N/A	N/A
Scale inhibitors	kilogram	5,500	N/A	N/A
Limestone	kilogram	1,764,500	N/A	N/A
Ammonium hydroxide	kilogram	903,221	N/A	N/A

* No available data from the household paper product operation

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environment and Natural Resources

Environmental-friendly Products

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

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

In addition, our team of household paper product operation boasts extensive professional experience and endeavours to conduct research on measures to protect natural resources. Except selecting eco-friendly materials as the raw materials to be used for making products and packaging, we will also study possible initiatives to enhance water stewardship and sustainable procurement. These initiatives include proper planning of water usage to improve efficiency and reduce wastage, risk management of water supply such as monitoring supply source and avoiding over-consumption and preventing acts that threaten the sustainability of local water supply, as well as reinforcing procurement management by cutting down usage of non-reusable materials, prioritising the procurement and selection of wood pulp certified by China Forest Certification Council, Forest Stewardship Council, Programme for the Endorsement of Forest Certification Schemes or other certification schemes, and resisting procurement and use of wood pulp from illegal logging.

Raising Awareness

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING ON SOCIAL ASPECTS

Employment and Labour Practices

Employment

Employment Data	Unit	Quantity 2019	2018
Total employees	no. of people	232	152
By gender			
— male	percentage	76.4	67.9
— female		23.6	32.1
By employment type			
— permanent	percentage	80.4	62.9
— full-time contracted		19.6	37.1
— temporary/part-time		N/A	N/A
By rank			
— executives	percentage	14.5	16.4
— others		85.5	83.6
By age			
— below 30	percentage	15.0	12.1
— 30-39		37.7	40.0
— 40-49		30.4	31.4
— 50-59		16.1	14.3
— above 60		0.8	2.2
Average service tenure			
— executives (male)	no. of years	14.0	13.1
— executives (female)		11.5	10.6
— others (male)		8.2	7.4
— others (female)		9.0	8.1
New employees			
— male	no. of people	13	21
— female		2	2
Employee loss			
— male	no. of people	17	26
— female		0	3

* Average service tenure, new employees and employee loss only include data from cigarette packaging operation and Hong Kong office.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2019, the Group witnessed a substantial increase in its total number of employees, which was the result of its launch of new operations. Gender and age ratios of its employees did not experience a significant change as the Group considers that such ratios align with the industry's general condition.

Recruitment and remuneration policies

The Group endeavours to provide a fair, safe and respectful workplace environment for our staff. The Group has formulated and strictly implemented a set of comprehensive human resources management system, which is in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (《僱傭條例》), the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) (《最低工資條例》), the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (《僱員補償條例》), the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) and other prevailing laws and regulations.

As regards staff recruitment, the Group, based on the principle of fairness and market condition for human resources, generally takes into account its business needs and candidates' experiences as main considerations. Except for special causes such as positions which are too physically demanding that we do not deem them the suitable roles for female employees and we want to avoid risks of occupational injuries, the Group does not decline to hire candidates or intends to dismiss any employees for their gender, family status or other unreasonable grounds.

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

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

Equal opportunity and diversity

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

Dismissal policy

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

Staff communication

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

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

Health and Safety

The Group attaches high importance on occupational health and safety. We are subject to the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) (《職業安全及健康條例》), the PRC Labour Law and other relevant laws, administrative regulations, national standards and industrial standards which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees. Our equipment and machineries are also maintained regularly to ensure that they are safe to be operated. We also implement safety measures at our production facilities to ensure compliance with applicable regulatory requirements and to minimise the risk of injury of our employees.

In respect of occupational injuries sustained by an employee as a result of an accident arising out of and in the course of employment, or occupational diseases specified in the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (《僱員補償條例》) or other applicable laws, or permanent loss of earning capacity, the Group will offer compensation pursuant to relevant regulations, guidelines and employee agreements. The Group believes that its work environment and nature do not entail material safety risks to its employees.

Physical and mental health

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

Training statistics:

	Unit	Quantity 2019	2018
Total number of employees trained	no. of people	213	128
Trained employees as a percentage of total number of employees	percentage	91.8	91.4
Total training hours			
By gender			
— Male	no. of hours	5,373	4,128
— Female	no. of hours	2,070	1,890
Average training hours			
By gender			
— Male	no. of hours	33.2	54.0
— Female	no. of hours	40.6	45.0
Total training hours			
By position			
— Executives	no. of hours	403	216
— Others	no. of hours	7,040	5,800
Average training hours			
By position			
— Executives	no. of hours	14.9	12.0
— Others	no. of hours	37.8	52.7

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

Labour Standard

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

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

Anti-bullying and harassment at workplace

In addition, the Group is committed to protecting its staff from any humiliation, intimidation, threatening and harassment and bullying in any other forms at workplace. In case of violation, the Group will promptly conduct investigation, as well as dismiss and punish employees in breach of such policy, whilst improving its labour system to address the issues.

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

Operating Practices

Supply Chain Management

The Group had approximately 50 suppliers as at 31 December 2019 and they are mainly located in Zhejiang, Jiangsu, Hubei, Shandong, Beijing, Shanghai, and other provinces or cities in China.

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

Regarding household paper products, the PRC government promulgated the Safety Assessment Management System of Household Paper and Paper Products, Chemicals and Raw Materials (GB/T36420-2018) (《生活用紙和紙製品、化學品及原料安全評價管理體系》) since 1 January 2019 with an aim to lay down stricter requirements on production process of household paper and paper products, as well as safety control of chemicals and raw materials. The Group has adopted necessary measures to meet relevant standards

Procurement policy

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

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

Product Responsibility

Quality first

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Understanding customers' needs

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

Privacy and intellectual property policies

We fully understand the importance of intellectual property rights. Our core production technology and critical production processes are crucial to our continued success and development. Any infringement of our intellectual rights may seriously affect our business and reputation. Therefore, we aspire to protect our patents, brand, trademark and other intellectual property rights and eradicate all infringement of our intellectual property rights. We also ensure that our business operation processes are in compliance with the Trademark Law of the PRC (《中華人民共和國商標法》), the Implementation Rules of the PRC Patent Law (《中華人民共和國商標法實施條例》), the Contract Law of the PRC (《中華人民共和國合同法》), the Intellectual Property Law of the PRC (《中華人民共和國知識產權法》), the Anti-unfair Competition Law (《反不正當競爭法》) and other relevant laws, administrative regulations, national standards and industrial standards.

We have a privacy policy, pursuant to which all personal and corporate data must be collected in compliance with all relevant privacy laws. We requested our staff to protect our customers' privacy and handle all commercially sensitive or confidential information in strict confidence. When cooperating with other companies, the Group enters into corresponding confidentiality agreements, whereby collection, use, storage and deletion of data including third-party patent technology are regulated, while the scope within which such confidential information can be informed of is delimited, in order to prevent any misuse or leaks.

Advertising and labelling

To attract clients, we carry out marketing and promotional works in an appropriate manner. We have been in compliance with all applicable laws and standards enacted by the government and industry associations. All promotion activities are only conducted upon confirmation that the requirements on the use of brand and advertising solutions of products and services are met, so as to avoid any misleading, inaccurate or exaggerating information. The Group will seek legal advice when necessary. We ensure that consumers are provided with sufficient and accurate information on our services to make informed choices.

During the Reporting Period, the Group has complied with all relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters of its products and services. There was no loss sustained by the Group's customers that are caused by leaks of customers' privacy data or other service problems; there was also no material complaints or damage claim from customers in respect of poor product or service quality.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-corruption

Anti-corruption, extortion, fraud and money-laundering

The Group always adheres to the principle of "integrity, corruption-free" and we have formulated a set of comprehensive anti-corruption and fraudulent mechanism pinpointing the whole supply chain from upstream suppliers to downstream end-customers, thereby ensuring that our directors and every employee clearly understand our strong stance of "zero-tolerance" against any corruption, fraudulence, extortion, money laundering and bribes, and be in compliance with domestic rules and have good professional conduct. The Group has clear and bespoke anti-corruption measures on areas from recruitment and promotion, procurement and sale, as well as internal audit. Such measures include, but not limited to, verification of the identity and relationship of employees to avoid hiring people who have close relationships with the Group's employees and management with unreasonable clauses; thorough inspection of clients' capital source to prevent money-laundering; stringent monitoring of procurement process to prohibit staff from taking benefits for facilitating the clients to obtain procurement contracts in a dishonest manner. In addition to setting up audit committee, nomination committee and remuneration committee as required by the Listing Rules, the Group also engages external compliance and legal advisors and auditor to ensure that the Company's results announcement and other disclosures fulfill the relevant requirements.

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

Whistle-blowing policy

We also have a "whistle-blowing" policy pursuant to which our employees are encouraged to report any wrongdoing and misconduct anonymously. We undertake to safeguard their identity. Upon receipt of any report, we will promptly carry out investigation and verify internally, and report to our management, board of directors and audit committee, as well as regulatory authorities and law enforcement agencies. We will also take all necessary measures to discipline employees, suppliers or business partners, and seek remedies available for their violation. The Group will further improve the mechanism to safeguard against illegal behaviour when necessary.

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

Community

Community Investment

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. CHEN Shuming, aged 55, is the chairman and executive Director of the Company. He is also the chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Chen has over 25 years of experience in the paper manufacturing industry. Mr. Chen completed an amateur college course in agriculture economic management (業餘大專班農業經濟管理專業) from the China Communist Party Shandong Provincial Committee Party School* (中共山東省委黨校) in December 1997 and obtained the Credentials of Senior Operating Manager (高級經營師) certified by the National Credentials Committee of Senior Operating Manager (全國高級經營師評審委員會) in August 2006. From July 1984 to May 1992, he worked at the Dongping County Foreign Trade Corporation* (東平縣外貿總公司). From May 1992 to October 2000, he was the general manager of Shandong Province Dongping County Mingxing Paper Manufacturing Limited* (山東省東平縣明興紙業有限責任公司). Since October 2000, he has been acting as the chairman of the board of directors of Shandong Jiexin Paper Manufacturing Limited* (山東潔昕紙業股份有限公司) (formerly known as Dongshun Group Limited* (東順集團股份有限公司) ("**Shandong Jiexin**")), a company that engages in the manufacturing of household papers and personal hygiene products in the PRC.

Mr. Chen has been a vice commissioner (副主任委員) of the China Paper Manufacturing Association, Household Paper Professional Committee* (中國造紙協會生活用紙專業委員會) since 2015 and the vice president of the Shandong Province Paper Manufacturing Industry Association* (山東省造紙行業協會) since 2016 and the president of the Household Paper Industry Association since June 2019. Mr. Chen was also a committee member of the 9th, 10th and 11th Shandong Province Committee of the PRC Political Consultative Conference* (中國人民政治協商會議山東省政協委員) and has been appointed as the economic consultant of the Dongping County government (東平縣人民政府) since February 2020. He was awarded Outstanding Contributor in December 2019 by Shangdong Private Entrepreneurs Union.

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

EXECUTIVE DIRECTOR

Mr. HE Guangrui, aged 40, is an executive Director and the joint chief executive officer of the Group. He has approximately 10 years of experience in corporate finance matters. He was appointed as the president of Shenzhen Qiaoxing Investment Co., Ltd.* (深圳市喬興投資有限公司) (formerly known as Shenzhen Fuan Investment Co., Limited* (深圳市富一投資有限公司)) in April 2017. He also acted as the president of Hao Hua Tai Cheng (Beijing) Capital Management Limited* (浩華泰成(北京)資本管理公司) from March 2014 to May 2016. Mr. He also served as the president of Zhongsen Weiye Asset Management Company* (中森偉業資產管理公司) between March 2013 and March 2014 and general manager of Beijing Golden Court Investment Consulting Co., Ltd.* (北京黃金閣投資諮詢有限公司) between December 2007 and January 2012. Mr. He also served as the executive director of Prosper One International Holdings Company Limited (formerly known as Tic Tac International Holdings Company Limited) (stock code: 1470), a company whose shares are listed on the Main Board of the Stock Exchange, from September 2017 to March 2018.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CHEN Xiaolong, aged 33, is an executive Director and the joint chief executive officer of the Group. He is the son of Mr. Chen Shuming and the spouse of Ms. Chen Xiaoyan. Mr. Chen Xiaolong has over 6 years of experience in the paper manufacturing industry. He graduated from the University of Northumbria at Newcastle, the United Kingdom, and was awarded a bachelor's degree of science in sport management in June 2012.

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

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

Mr. HU Enfeng, aged 56, is an executive Director and the chief financial officer of the Group. He obtained a certificate as an auditor conferred by the Audit Bureau of the PRC (中華人民共和國審計署) in November 1992 and further obtained the qualification as a senior accountant certified by Hubei Province Township Professional Technical Senior Position Review Committee* (湖北省鄉鎮企業專業技術高級職務評審委員會) in April 2002. He also obtained a certificate of a top-up degree (專升本科) course in accounting from Northeast Normal University (東北師範大學) through professional online education in July 2017.

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

Mr. ZHANG Shihua, aged 35, is an executive Director and the chief information officer of the Group. He has approximately 13 years of experience in the paper manufacturing industry. He obtained his qualification as a secretary to the board of directors (董事會秘書資格證書) conferred by the Shenzhen Stock Exchange in March 2014. He obtained his bachelor's degree in law at Liaocheng University (聊城大學) in December 2016.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

Ms. CHEN Xiaoyan, aged 34, obtained a degree of bachelor of arts in broadcasting and anchorage (film direction)* from Sichuan Normal University (四川師範大學) in June 2008. She worked in Shandong People's Daily Advertising Company Limited* (山東大眾報業（集團）廣告有限公司), a limited company incorporated in the PRC, as a journalist and editor from August 2009 to March 2010. Ms. Chen has been working as the vice-president of Shandong Jiexin that engages in the manufacturing of household papers and personal hygiene products in the PRC, since May 2010.

Ms. Chen is the spouse of Mr. Chen Xiaolong and also the daughter-in-law of Mr. Chen Shuming.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. CHEN Hua, aged 52, is an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee. He has more than 29 years of experience in the field of economics and finance. He graduated from Southwestern University of Finance and Economics (西南財經大學), the PRC, and was awarded a bachelor's degree in economics (major in statistics) in July 1989. Between July 1989 and September 2002, Mr. Chen Hua served various roles, including deputy chief of the sub-branch and department manager of the branch, of the Industrial and Commercial Bank of China. He obtained a master's degree in science from Shandong University (山東大學), the PRC, in December 2001 and a doctorate degree in economics from Soochow University (蘇州大學), the PRC, in June 2005. He was the professor and the head of the regional competitiveness assessment center (區域競爭力評價中心) of the Shandong Economics University* (山東經濟學院) from March 2005 to July 2007 and the vice president of the taxation and finance institute of Shandong Economics University* (山東經濟學院財稅金融研究所) from July 2007 to July 2009. From September 2010 to April 2013, he was an applied economics postdoctoral researcher at the Fiscal Science Research Institute of the Ministry of Finance of the PRC* (中華人民共和國財政部財政科學研究所). Since November 2014, he has been the head of the finance research institute of Shandong University of Finance and Economics* (山東財經大學當代金融研究所).

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHAO Zhendong, aged 56, is an independent non-executive Director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee. He has over 35 years of experience in the paper manufacturing industry. Mr. Zhao completed a two-year paper manufacturing program at Shandong Province Light Industry School* (山東省輕工業學校) in July 1984. He obtained a diploma in chemistry from Shandong Normal University (山東師範大學) in July 1990 and an undergraduate diploma in economics from China Communist Party Central Party School Correspondence College* (中共中央黨校函授學院) in December 1993. Mr. Zhao also obtained the qualification as a senior engineer conferred by Shandong Province Light Industry Technical Position Senior Review Committee* (山東省輕工工程技術職務高級評審委員會) in May 2003.

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

Mr. CHAN Yee Ping Michael, aged 43, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Nomination Committee. He has more than 19 years of experience in the areas of audit, financial management, corporate secretarial management and corporate governance. He obtained his bachelor's degree in accountancy from The Hong Kong Polytechnic University in December 1999. He was admitted as a certified public accountant and a fellow member of the Hong Kong Institute of Certified Public Accountants in October 2003 and July 2017 respectively, and a fellow member of the Association of Chartered Certified Accountants in June 2009.

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. LAU Ka Ming, aged 37, has been the company secretary of the Company since February 2016. He is responsible for accounting and financial matters as well as company secretarial matters of the Group.

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

Mr. Lau has more than 14 years of experience in auditing, financial reporting, management accounting and company secretarial management.

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

Opinion

We have audited the consolidated financial statements of Champion Alliance International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 68 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "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 are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment and right-of-use assets	
The carrying amounts of property, plant and equipment and right-of-use assets of the cigarette packaging business segment of the Group as at 31 December 2019 were RMB26,634,000 and RMB11,039,000, respectively, which in aggregate represented 10% of the Group's total assets. Given that the operating performance of the cigarette packaging business segment is deteriorating, management considered that the property, plant and equipment and right-of-use assets of this business segment may be impaired. Accordingly, management performed an impairment assessment on these assets in accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets* issued by the HKICPA. In this regard, the Group engaged an independent professional valuer to assist it in the estimation of the recoverable amount of these assets on the fair value less costs of disposal basis, which requires, inter alia, estimation of the prices at which an orderly transaction to sell these assets would take place. Given the complexity and judgemental nature of the impairment assessment, we considered this a key audit matter. The accounting policies, significant accounting judgement and estimate and disclosures about the balances of property, plant and equipment and right-of-use assets are included in notes 2.4, 3, 13 and 15 to the consolidated financial statements.	We evaluated the assumptions and data used by the Group in the impairment assessment of these assets, and involved our internal valuation specialists to assist us in evaluating the methodology adopted by the independent professional valuer for the impairment assessment and the fair value used in the recoverable amount calculation. As part of our audit procedures, we considered the competence, capabilities and objectivity of the independent professional valuer.

EY 安永

Key audit matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
At 31 December 2019, the Group had trade receivables of RMB137,848,000, which represented 37% of the Group's total assets as at that date and mainly arose from the sale of cigarette packaging materials. In assessing the recoverability of trade receivables, management uses a provision matrix to measure expected credit losses and the provision rates are based on the average of historical incurred credit loss experience on each ageing group of trade receivables. Customers with credit deterioration will be assessed on an individual basis for the provision of expected credit losses. Significant management's judgements and estimates were involved in determining the recoverability of the trade receivables for impairment assessment. Related disclosures of the accounting policies, accounting judgements and estimates and impairment of trade receivables are included in notes 2.4, 3 and 19 to the consolidated financial statements.	In relation to the impairment assessment of trade receivables, we obtained an understanding of the credit loss provisioning methodology adopted by the Group and assessed the allowance for expected credit losses estimated by management with reference to the history of debtors' settlement patterns and ageing analysis of the trade receivables. We also, on a sample basis, tested the ageing analysis of the trade receivables prepared by management; and checked the settlement status subsequent to the reporting period.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises 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.

INDEPENDENT AUDITOR'S REPORT

EY 安永

Responsibilities of the directors 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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.

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibilities for the audit of the consolidated financial statements

(Continued)

- 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 CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong
15 May 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**530,713**	217,491
Cost of sales		**(455,045)**	(184,542)
Gross profit		**75,668**	32,949
Other income and gains, net	6	**1,324**	1,646
Selling and distribution expenses		**(23,390)**	(14,244)
Administrative expenses		**(23,810)**	(16,107)
Impairment of trade receivables, net	19(b)	**(2,103)**	(744)
Other expenses, net		**(9,935)**	(8,441)
Finance costs	7	**(603)**	(975)
PROFIT/(LOSS) BEFORE TAX	8	**17,151**	(5,916)
Income tax credit/(expense)	11	**(9,410)**	1,292
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**7,741**	(4,624)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the Company's financial statements into its presentation currency		**497**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**497**	–
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY		**8,238**	(4,624)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
Basic and diluted (RMB cents per share)		**1.55**	(0.92)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**26,651**	29,446
Investment property	14	**4,614**	4,878
Right-of-use assets	15	**21,821**	–
Prepaid land lease payments	15	**–**	11,364
Computer software	16	**93**	63
Deferred tax assets	17	**–**	1,703
Total non-current assets		**53,179**	47,454
CURRENT ASSETS			
Inventories	18	**108,182**	73,892
Trade and bills receivables	19	**141,347**	124,851
Prepayments, deposits and other receivables	20	**17,356**	2,960
Income tax recoverables		**415**	–
Restricted cash	21	**17,475**	38,120
Cash and cash equivalents	21	**35,694**	5,912
Total current assets		**320,469**	245,735
CURRENT LIABILITIES			
Trade and bills payables	22	**143,720**	151,472
Other payables and accruals	23	**45,845**	13,077
Income tax payable		**319**	–
Bank and other borrowings	24	**50,748**	15,000
Lease liabilities	15	**10,784**	–
Total current liabilities		**251,416**	179,549
NET CURRENT ASSETS		**69,053**	66,186
TOTAL ASSETS LESS CURRENT LIABILITIES		**122,232**	113,640
NON-CURRENT LIABILITIES			
Deferred government grants	25	**944**	1,090
Net assets		**121,288**	112,550

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY			
Issued capital	26	**4,459**	4,459
Reserves	27	**116,829**	108,091
Total equity		**121,288**	112,550

Chen Shuming
Director

Hu Enfeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Issued capital *RMB'000*	Share premium account *RMB'000*	Share-based compensation reserve *RMB'000* *(note 27(b))*	Merger reserve *RMB'000* *(note 27(c))*	Exchange fluctuation reserve *RMB'000*	PRC statutory reserve *RMB'000* *(note 27(d))*	Retained profits *RMB'000*	Total equity *RMB'000*
At 1 January 2018	4,459	63,065	1,500	23,803	–	13,024	10,823	116,674
Loss for the year and total comprehensive loss for the year	–	–	–	–	–	–	(4,624)	(4,624)
Share-based compensation expense	–	–	500	–	–	–	–	500
At 31 December 2018 and 1 January 2019	4,459	63,065*	2,000*	23,803*	–*	13,024*	6,199*	112,550
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**7,741**	**7,741**
Other comprehensive income for the year:								
— Exchange differences on translation of the Company's financial statements into its presentation currency	**–**	**–**	**–**	**–**	**497**	**–**	**–**	**497**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**497**	**–**	**7,741**	**8,238**
Share-based compensation expense	**–**	**–**	**500**	**–**	**–**	**–**	**–**	**500**
Transfer between reserves	**–**	**–**	**(2,500)**	**–**	**–**	**–**	**2,500**	**–**
At 31 December 2019	**4,459**	**63,065***	**–***	**23,803***	**497***	**13,024***	**16,440***	**121,288**

* These reserve accounts comprise the consolidated reserves of RMB116,829,000 (2018: RMB108,091,000) in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**17,151**	(5,916)
Adjustments for:			
Bank interest income	6	**(447)**	(396)
Subsidy income	6	**(146)**	(146)
Finance costs	7	**603**	975
Depreciation of items of property, plant and equipment	8	**3,212**	3,391
Depreciation of investment property	8	**264**	264
Depreciation of right-of-use assets	8	**554**	–
Amortisation of prepaid land lease payments	8	**–**	326
Amortisation of intangible assets	8	**15**	45
Loss on disposal of items of property, plant and equipment, net	8	**–**	77
Impairment of trade receivables, net	8	**2,103**	744
Share-based compensation expense	8	**500**	500
		23,890	(136)
Increase in inventories		**(34,290)**	(10,660)
Decrease/(increase) in trade and bills receivables		**(18,599)**	22,438
Decrease/(increase) in prepayments, deposits and other receivables		**(14,396)**	637
Decrease in trade and bills payables		**(7,752)**	(23,296)
Increase in other payables and accruals		**35,701**	607
Exchange alignments		**730**	–
Cash used in operations		**(14,797)**	(10,410)
Income tax paid		**(7,803)**	(526)
Net cash flows used in operating activities		**(22,600)**	(10,936)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(417)**	(2,788)
Additions to computer software		**(45)**	–
Repayment from a former director		**–**	1,511
Interest received		**447**	396
Net cash flows used in investing activities		**(15)**	(881)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Note	**2019** *RMB'000*	2018 *RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**15,000**	31,388
Repayment of bank loans		**(15,000)**	(31,368)
New other loan		**35,288**	–
Interest paid		**(592)**	(975)
Decrease in restricted cash		**20,645**	599
Principal portion of lease payments		**(238)**	–
Advance from the ultimate holding company		**139**	1,069
Advance from/(repayment to) a company controlled by a former director		**(3,071)**	2,976
Repayment to a former director		**–**	(736)
Net cash flows from financing activities		**52,171**	2,953
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**29,556**	(8,864)
Cash and cash equivalents at beginning of year		**5,912**	14,776
Effect of foreign exchange rate changes, net		**226**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	*21*	**35,694**	5,912

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

Champion Alliance International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office address of the Company is P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands and the Company's principal place of business in Hong Kong is located at Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the following activities:

- manufacture and sale of cigarette packaging materials and provision of related processing services in the mainland ("Mainland China") of the People's Republic of China (the "PRC");
- production and sale of steam for industrial use and heating and electricity in Mainland China; and
- trading of household paper products in Mainland China.

In the opinion of the directors of the Company, the immediate holding company and the ultimate holding company of the Company is Champion Alliance International Corporation, which is incorporated in the British Virgin Islands (the "BVI").

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries, which are all indirectly held by the Company, as at 31 December 2019 are as follows:

Company name	Place of registration/ operations	Registered capital	Percentage of equity attributable to the Company	Principal activities
湖北盟科紙業有限公司 ("Hubei Mengke")^	PRC/Mainland China	Renminbi ("RMB") 24,000,000	100%	Manufacture and sale of cigarette packaging materials and provision of related processing services
冠均華盈(山東)新能源有限公司*	PRC/Mainland China	–	100%	Production and sale of steam for industrial use and heating and electricity
冠均(山東)貿易有限公司*	PRC/Mainland China	–	100%	Trading of household paper products

^ This entity is registered as a wholly-foreign-owned enterprise under PRC Law.

* These entities are registered as limited liability companies under PRC Law and each of them has a registered capital of RMB50,000,000 which should be fully paid up by 31 December 2030. At the date of approval of these financial statements, no capital has been paid up for each of these entities.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the shareholders of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases,* HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption, if any, recognised as an adjustment to the opening balance of retained profits as at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(continued)*

As a lessor

HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease arrangements as a lessee for various items of land, office premises and plant and equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on the straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities as at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate as at 1 January 2019 and were separately presented on the face of the consolidated statement of financial position. This includes the upfront payments for land leases of RMB11,767,000 that were reclassified from prepaid land lease payments.

The right-of-use asssets were measured at the amount of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 *Impairment of Assets* on that date. The Group elected to present the right-of-use assets separately on the face of the consolidated statement of financial position.

For the leasehold land and building that meet the definition of an investment property under HKAS 40 *Investment Property*, the Group includes it as an investment property as at 1 January 2019 and stated it at cost less accumulated depreciation and any accumulated impairment losses in accordance with the Group's accounting policy for investment property.

The Group has used the following elective practical expedients when applying HKFRS 16 on 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Using a single discount rate to a portfolio of leases with reasonably similar characteristics, when measuring the lease liabilities as at 1 January 2019

NOTES TO FINANCIAL STATEMENTS

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(continued)*

Financial impact on 1 January 2019

The impact arising from the adoption of HKFRS 16 on 1 January 2019 was as follows:

	RMB'000
Assets	
Increase in right-of-use assets	11,621
Decrease in prepaid land lease payments	(11,364)
Increase in total assets	257
Liabilities	
Increase in lease liabilities and total liabilities	257

A reconciliation of the operating lease commitments as at 31 December 2018 to the lease liabilities as at 1 January 2019 is as follows:

	RMB'000
Operating lease commitments as at 31 December 2018 *(note 15(e))*	269
Weighted average incremental borrowing rate as at 1 January 2019	4.4%
Lease liabilities as at 1 January 2019 *(note 15(c))*	257

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 *Income Taxes* (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

(b) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a holding company of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to a holding company of the Group.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of different categories of property, plant and equipment are as follows:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment property

Investment property is an interest in land and building (including the leasehold property held as a right-of-use asset (2018: leasehold property under an operating lease) which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of an investment property over its estimated useful life of 20 years.

Any gain or loss on the retirement or disposal of an investment property is recognised in profit or loss in the period of the retirement or disposal.

Computer software

Computer software acquired separately is measured on initial recognition at cost. The useful life of computer software is assessed to be finite.

Computer software is subsequently amortised over the useful economic life of 5 years and assessed for impairment whenever there is an indication that an item of computer software may be impaired. The amortisation period and the amortisation method for computer software are reviewed at least at each financial year end.

An item of computer software is derecognised on disposal or no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the computer software is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant computer software.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset arising from the projects so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on the straight-line basis over the lease terms and is included in other income in profit or loss. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents, if any, are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, are accounted for as finance leases.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on the straight-line basis over the following depreciation periods, which are the shorter of the lease terms and the estimated useful lives of the assets:

Leasehold land	35 years
Office premises	2 years
Plant and equipment	1 year and 1 day

If ownership of the leased asset is transferred to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The Group's right-of-use assets are separately presented on the face of the consolidated statement of financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee *(Continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receiveable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the interest rate implicit in the lease or, where that rate cannot be readily determined, the Group uses its incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are separately presented on the face of the consolidated statement of financial position.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of plant, machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on the straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms of 41 to 45 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets are all classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset (debt instrument) to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets (debt instruments) with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*

The Group's business model for managing financial assets (debt instruments) refers to how it manages its financial assets (debt instruments) in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets (debt instruments), or both. Financial assets (debt instruments) classified and measured at amortised cost are held within a business model with the objective to hold financial assets (debt instruments) in order to collect contractual cash flows, while financial assets (debt instruments) classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets (debt instruments) which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Impairment

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

(a) General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Impairment *(Continued)*

(a) General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

(b) Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities are all classified, at initial recognition, as financial liabilities measured at amortised cost, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost 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 profit or loss 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 profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Derecognition

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Where the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) *Sale of goods*

Revenue from the sale of cigarette packaging products, steam, electricity and household paper products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of household paper products provide customers with volume rebates. The volume rebates give rise to variable consideration.

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) *Processing service income*

Revenue from the provision of processing services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance enhances an asset that the customer controls as the asset is enhanced. The input method recognises revenue on the basis of labour time spent on the services.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from other sources

(a) Rental income is recognised on the straight-line basis over the lease terms.

(b) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

(a) *Share-based payments*

In prior years, an employee of the Group received remuneration in the form of a share-based payment provided by the then controlling shareholder of the Group, whereby the employee agreed to render a five-year service period to the Group in exchange for acquiring certain percentage of equity interest in a subsidiary of the Group from the controlling shareholder at a below-market price (the "equity-settled transaction").

The cost of the equity-settled transaction is measured at the fair value of the equity interest of the subsidiary acquired less the consideration paid by the employee. The cost of the equity-settled transaction is recognised as an employee benefit expense, together with a corresponding increase in equity of the subsidiary, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for the equity-settled transaction at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired. The charge to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(b) Defined contribution schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. They are expensed in the period in which they are incurred.

Foreign currencies

The Company has used Renminbi as the presentation currency of these financial statements, which is different from the Company's functional currency of Hong Kong dollar, because the management of the Group ordinarily uses Renminbi for management reporting purpose. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currency of the Company and certain subsidiaries is Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and subsidiaries which have Hong Kong dollar as their functional currency are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and these subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rate for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Group's accounting policies, management has made the following key judgements, estimations and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Useful lives and residual values of property, plant and equipment

The Group's management determines the useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge when useful lives and residual values are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation in the future periods.

Impairment of inventories

Impairment of inventories is made based on the assessment of net realisable value, which is the amount the inventories are expected to realise. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying values of inventories and the amount of impairment/reversal in the periods in which such estimates have been changed.

The net carrying amount of inventories as at 31 December 2019 was RMB108,182,000 (2018: RMB73,892,000), details of which are set out in note 18 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables, by applying ECL rates to different ageing groups of customers. The ECL rate of each ageing group is determined by the Group based on the average of historical incurred credit loss experience on each ageing group in the past years and, where material, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's historical credit loss experience and forecast of economic conditions may not be representative of a customer's actual default in the future and significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying amounts of trade receivables and the amount of ECLs provided or reversed in the periods in which such estimates have been changed. The information about the ECLs on the Group's trade receivables is disclosed in note 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to tax losses was recognised as at 31 December 2019 (2018: RMB700,000). The amount of unrecognised tax losses as at 31 December 2019 was RMB3,408,000 (2018: Nil). Further details are contained in note 17 to the financial statements.

Principal versus agent consideration

The Group engages in trading of household paper products and all of the household paper products traded by the Group were purchased from a company (the "Distributor") which is a distribution agent for household paper product manufacturers in Mainland China, including a subsidiary of the Distributor (which had a director resigned during the year who is also a director of the Company). The amounts of purchases of household paper products from the Distributor during the year ended 31 December 2019 amounted to RMB179,726,000 (2018: Nil). The Group determines whether the nature of its promise is a performance obligation to provide the merchandised goods itself (i.e., the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e., the Group is an agent) in accordance with HKFRS 15 requirements. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the merchandised goods to be provided by the other party. The Group's management determined that the Group is acting as the principal for the trading transactions as it controls the merchandised good before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods, the Group has price risk and discretion in establishing the price for the goods as well as inventory risk.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the cigarette packaging products segment manufactures and sells cigarette packaging products and provides related processing service in Mainland China;

(b) the new energy operation segment engages in the production and sale of steam for industrial use and heating and electricity in Mainland China; and

(c) the household paper products segment trades household paper products;

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs as well as head office and corporate income and expenses are excluded from such measurement.

Segment revenue and results

	Cigarette packaging products		**New energy operation**		**Household paper products**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue *(note 5)*								
Revenue from external customers	**251,847**	217,491	**101,125**	–	**177,741**	–	**530,713**	217,491
Segment results	**(1,999)**	(1,934)	**19,378**	–	**11,645**	–	**29,024**	(1,934)
Reconciliation:								
Bank interest income							**447**	396
Corporate and other unallocated expenses							**(11,717)**	(3,403)
Finance costs							**(603)**	(975)
Profit/(loss) before tax							**17,151**	(5,916)

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Segment assets and liabilities information is not disclosed as they are not regularly reviewed by the chief operating decision maker.

Other segment information

	Cigarette packaging products		New energy operation		Household paper products		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation of items of property, plant and equipment								
— Operating segments	**3,200**	3,377	**–**	–	**–**	–	**3,200**	3,377
— Amount unallocated							**12**	14
							3,212	3,391
Depreciation of investment property	**264**	264	**–**	–	**–**	–	**264**	264
Depreciation of right-of-use assets								
— Operating segments	**325**	–	**–**	–	**–**	–	**325**	–
— Amount unallocated							**229**	–
							554	–
Amortisation of prepaid land lease payments	**–**	326	**–**	–	**–**	–	–	326
Amortisation of computer software	**15**	45	**–**	–	**–**	–	**15**	45
Impairment of trade receivables, net	**2,103**	744	**–**	–	**–**	–	**2,103**	744
Capital expenditure*	**417**	352	**10,754**	–	**45**	–	**11,216**	352

* *Capital expenditure consists of additions to property, plant and equipment, right-of-use assets and computer software.*

NOTES TO FINANCIAL STATEMENTS

31 December 2019

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

No geographical information is presented as revenue is solely derived from Mainland China and more than 90% of the Group's non-current assets were located in Mainland China.

Information about major customers

During the year ended 31 December 2019, two (2018: four) external customers individually contributed 10% or more to the Group's total revenue for the year and the revenue generated from sales to each of these customers is set out below:

	2019	2018
	RMB'000	*RMB'000*
Cigarette packaging products segment:		
Customer A	**63,373**	49,852
Customer B	**N/A***	44,272
Customer C	**N/A***	29,451
Customer D	**N/A***	26,730
New energy operation segment:		
Customer E	**59,889**	–

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

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE

An analysis of the Group's revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Sales of goods	**522,898**	216,757
Processing service income	**7,815**	734
	530,713	217,491

Notes:

(a) Disaggregated revenue information

Year ended 31 December 2019

Segments	Cigarette packaging products	New energy operation	Household paper products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Type of goods or services				
Sale of cigarette packaging products:				
— Transfer metallised paper	213,991	–	–	213,991
— Laminated metallised paper	30,041	–	–	30,041
	244,032	–	–	244,032
Processing service income	7,815	–	–	7,815
Sale of steam for industrial use and heating and electricity	–	101,125	–	101,125
Sale of household paper products	–	–	177,741	177,741
Total revenue from contracts with customers	251,847	101,125	177,741	530,713
Timing of revenue recognition				
Goods transferred as point in time	244,032	101,125	177,741	522,898
Services transferred over time	7,815	–	–	7,815
Total revenue from contracts with customers	251,847	101,125	177,741	530,713

Geographical market

All revenue from contracts with customers were generated in Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

5. REVENUE *(Continued)*

Notes: (Continued)

(a) Disaggregated revenue information *(Continued)*

Year ended 31 December 2018

Segments	Cigarette packaging products	New energy operation	Household paper products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Type of goods or services				
Sale of cigarette packaging products:				
— Transfer metallised paper	190,080	–	–	190,080
— Laminated metallised paper	26,677	–	–	26,677
	216,757	–	–	216,757
Processing service income	734	–	–	734
Total revenue from contracts with customers	217,491	–	–	217,491
Timing of revenue recognition				
Goods transferred as point in time	216,757	–	–	216,757
Services transferred over time	734	–	–	734
Total revenue from contracts with customers	217,491	–	–	217,491

Geographical market

All revenue from contracts with customers were generated in Mainland China.

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the cigarette packaging products and household paper products and payment is generally due within 30 to 150 days from delivery, except for new customers and the sale of steam for industrial use and heating and electricity, where payment in advance is normally required. Some household paper products sales contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

Processing services

Revenue from the provision of processing services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance enhances an asset that the customer controls as the asset is enhanced. The input method recognises revenue on the basis of labour time spent on the services.

(c) The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) of RMB32,147,000 (2018: Nil) as at 31 December 2019 are expected to be recognised as revenue within one year. The amount disclosed does not include variable consideration which is constrained.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

6. OTHER INCOME AND GAINS, NET

An analysis of the Group's other income and gains, net is as follows:

	2019	2018
	RMB'000	*RMB'000*
Other income		
Bank interest income	**447**	396
Rental income	**700**	934
Subsidy income*	**146**	146
Others	**31**	–
	1,324	1,476
Gains, net		
Gain on sale of raw materials and waste materials, net	**–**	83
Foreign exchange differences, net	**–**	87
	–	170
Other income and gains, net	**1,324**	1,646

* Subsidies are received by a subsidiary from various government authorities in Mainland China for the development of its business. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2019	2018
	RMB'000	*RMB'000*
Interest on bank borrowings	**592**	650
Interest on lease liabilities *(note 15(c))*	**11**	–
Discount charges on bank acceptance notes	**–**	325
	603	975

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8. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**453,086**	182,455
Depreciation of items of property, plant and equipment	13	**3,212**	3,391
Less: Amount included in cost of inventories sold		**(1,891)**	(1,969)
		1,321	1,422
Depreciation of right-of-use assets	15(b)	**554**	–
Less: Amount included in cost of inventories sold		**(68)**	–
		486	–
Depreciation of investment property	14	**264**	264
Amortisation of prepaid land lease payments	15(a)	**–**	326
Less: Amount included in cost of inventories sold		**–**	(118)
		–	208
Amortisation of computer software*	16	**15**	45
Lease payments not included in the measurement of lease liabilities		**10,984**Ω	–
Minimum lease payments under operating leases		**–**	269
Auditor's remuneration		**1,780**	1,285
Employee benefit expense (excluding directors' remuneration — *note 9*):			
Salaries, bonus and benefits in kind		**19,752**	14,436
Defined contribution scheme contributions		**1,891**	1,476
Share-based compensation expense		**500**	–
		22,143	15,912
Less: Amount included in cost of inventories sold		**(9,081)**	(3,969)
		13,062	11,943
Foreign exchange differences, net		**660**	(87)
Research and development costs#		**7,993**	7,998
Loss on disposal of items of property, plant and equipment, net#		**–**	77

* This item is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

These items are included in "Other expenses, net" on the face of the consolidated statement of profit or loss and other comprehensive income.

Ω The amount paid related to a lease of plant and equipment from a company in which the Distributor has a beneficial interest.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to The Rules Governing The Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Fees	**4,186**	1,379
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	167
Defined contribution scheme contributions	**5**	56
Share-based compensation expense	**–**	500
	5	723
	4,191	2,102

An analysis of the directors' remuneration, on a named basis, is as follows:

Name of director	Fees	Salaries, allowances and benefits in kind	Defined contribution scheme contributions	Share-based compensation expense	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Executive directors:					
Mr. Chen Shuming *(Chairman)*	**1,588**	**–**	**–**	**–**	**1,588**
Mr. Chen Xiaolong *(Joint Chief Executive Officer)*	**533**	**–**	**5**	**–**	**538**
Ms. Chen Xiaoyan△	**150**	**–**	**–**	**–**	**150**
Mr. He Guangrui *(Joint Chief Executive Officer)*	**1,059**	**–**	**–**	**–**	**1,059**
Mr. Hu Enfeng	**529**	**–**	**–**	**–**	**529**
Mr. Zhang Shihua	**53**	**–**	**–**	**–**	**53**
Mr. Zhan Qingtao#	**27**	**–**	**–**	**–**	**27**
	3,939	**–**	**5**	**–**	**3,944**
Independent non-executive directors:					
Mr. Chan Yee Ping Michael	**141**	**–**	**–**	**–**	**141**
Mr. Chen Hua	**53**	**–**	**–**	**–**	**53**
Mr. Zhao Zhendong	**53**	**–**	**–**	**–**	**53**
	247	**–**	**–**	**–**	**247**
	4,186	**–**	**5**	**–**	**4,191**

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9. DIRECTORS' REMUNERATION *(Continued)*

Name of director	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Defined contribution scheme contributions *RMB'000*	Share-based compensation expense *RMB'000*	Total remuneration *RMB'000*
Year ended 31 December 2018					
Executive directors:					
Mr. Chen Shuming *(Chairman)**	181	–	–	–	181
Mr. Chen Xiaolong*	60	–	–	–	60
Mr. Fu Ming Ping ("Mr. Fu")^	228	154	26	500	908
Mr. He Guangrui *(Chief executive)**	121	–	–	–	121
Mr. Hu Enfeng@	31	–	–	–	31
Mr. Zhang Shihua*	6	–	–	–	6
Mr. Zhan Qingtao*	6	–	–	–	6
	633	154	26	500	1,313
Non-executive director:					
Mr. Zhang Weixiang ("Mr. Zhang")^	433	13	30	–	476
Independent non-executive directors:					
Mr. Chan Yee Ping Michael*	16	–	–	–	16
Mr. Chen Hua*	6	–	–	–	6
Mr. Chen Tai Kwan Sunny^	95	–	–	–	95
Mr. Tan Yik Chung Wilson^	95	–	–	–	95
Mr. Yick Ting Fai Jeffery^	95	–	–	–	95
Mr. Zhao Zhendong*	6	–	–	–	6
	313	–	–	–	313
	1,379	167	56	500	2,102

△ Appointed on 27 June 2019

\# Resigned on 27 June 2019

* Appointed on 20 November 2018

@ Appointed on 10 December 2018

^ Resigned on 10 December 2018

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2019 included four (2018: two) directors of the Company, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2018: three) non-director highest paid employee for the year are as follows:

	2019	2018
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**635**	1,471
Defined contribution scheme contributions	**16**	59
	651	1,530

The number of non-director highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2019	2018
Nil to HK$1,000,000 (equivalent to Nil to RMB882,000)	**1**	3

11. INCOME TAX

An analysis of the Group's income tax is as follows:

	2019	2018
	RMB'000	*RMB'000*
Current — Mainland China		
Charge for the year	**7,570**	–
Underprovision/(overprovision) in prior years	**137**	(74)
	7,707	(74)
Deferred *(note 17)*	**1,703**	(1,218)
Total income tax expense/(credit)	**9,410**	(1,292)

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11. INCOME TAX *(Continued)*

Notes:

(a) No provision for Hong Kong profits tax has been made for the year ended 31 December 2019 as the Group did not generate any assessable profits arising in Hong Kong during the year (2018: Nil).

Taxes on profits assessable in Mainland China have been calculated at the applicable tax rate on the estimated assessable profits for the year, based on the prevailing legislation, interpretations and practices in respect thereof.

(b) A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory tax rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates is as follows:

	2019	2018
	RMB'000	*RMB'000*
Profit/(loss) before tax	**17,151**	(5,916)
Tax expense/(credit) at the statutory tax rates	**5,473**	(887)
Additional tax deduction on research and development expenses	**(899)**	(894)
Income not subject to tax	**(222)**	–
Expenses not deductible for tax	**2,939**	563
Adjustments in respect of current tax of previous periods	**137**	(74)
Adjustments in respect of deferred tax of previous period	**1,703**	–
Tax losses not recognised	**279**	–
Tax expense/(credit) at the Group's effective tax rate of 55.5% (2018: 21.8%)	**9,410**	(1,292)

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic earnings (2018: loss) per share amount is based on the profit for the year attributable to shareholders of the Company of RMB7,741,000 (2018: loss of RMB4,624,000), and the weighted average number of ordinary shares of 500,000,000 (2018: 500,000,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018 for a dilution as the Group had no potentially dilutive ordinary shares in issue during each of these years.

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13. PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings *RMB'000* *(note)*	Machinery *RMB'000* *(note)*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2019						
At 1 January 2019:						
Cost	**32,298**	**19,007**	**2,243**	**1,643**	**–**	**55,191**
Accumulated depreciation	**(9,615)**	**(13,540)**	**(1,397)**	**(1,193)**	**–**	**(25,745)**
Net carrying amount	**22,683**	**5,467**	**846**	**450**	**–**	**27,446**
Net carrying amount:						
At 1 January 2019	**22,683**	**5,467**	**846**	**450**	**–**	**29,446**
Additions	**–**	**37**	**12**	**368**	**–**	**417**
Depreciation provided during the year	**(1,604)**	**(1,108)**	**(222)**	**(278)**	**–**	**(3,212)**
At 31 December 2019	**21,079**	**4,396**	**636**	**540**	**–**	**26,651**
At 31 December 2019:						
Cost	**32,298**	**19,044**	**2,255**	**2,011**	**–**	**55,608**
Accumulated depreciation	**(11,219)**	**(14,648)**	**(1,619)**	**(1,471)**	**–**	**(28,957)**
Net carrying amount	**21,079**	**4,396**	**636**	**540**	**–**	**26,651**
Year ended 31 December 2018						
At 1 January 2018:						
Cost	32,165	18,615	2,256	1,553	395	54,984
Accumulated depreciation	(8,055)	(12,297)	(1,080)	(990)	–	(22,422)
Net carrying amount	24,110	6,318	1,176	563	395	32,562
Net carrying amount						
At 1 January 2018	24,110	6,318	1,176	563	395	32,562
Additions	227	–	6	–	119	352
Depreciation provided during the year	(1,602)	(1,246)	(340)	(203)	–	(3,391)
Disposals	(52)	–	(25)	–	–	(77)
Transfers	–	395	29	90	(514)	–
At 31 December 2018	22,683	5,467	846	450	–	29,446
At 31 December 2018:						
Cost	32,298	19,007	2,243	1,643	–	55,191
Accumulated depreciation	(9,615)	(13,540)	(1,397)	(1,193)	–	(25,745)
Net carrying amount	22,683	5,467	846	450	–	29,446

Note: At 31 December 2019, certain of the Group's plant and buildings and machinery with an aggregate net carrying amount of RMB15,020,000 (2018: RMB20,892,000) were pledged to secure general banking facilities granted to the Group (note 24(a)).

NOTES TO FINANCIAL STATEMENTS

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14. INVESTMENT PROPERTY

	2019	2018
	RMB'000	*RMB'000*
At 1 January:		
Cost	**6,618**	6,618
Accumulated depreciation	**(1,740)**	(1,476)
Net carrying amount	**4,878**	5,142
Net carrying amount:		
At 1 January	**4,878**	5,142
Depreciation provided during the year	**(264)**	(264)
At 31 December	**4,614**	4,878
At 31 December:		
Cost	**6,618**	6,618
Accumulated depreciation	**(2,004)**	(1,740)
Net carrying amount	**4,614**	4,878

At 31 December 2019, the Group's investment property is a portion of the Group's staff quarter which is located in Hubei province, the PRC and leased to a third party for rental income. The fair value of the investment property as at 31 December 2019 was RMB5,520,000, which has been arrived at on the basis of a valuation carried out on that date by an independent professional qualified valuer using the direct comparison method. The valuation was arrived at by reference to comparable market transactions for similar properties. The fair value measurement of the Group's investment property is using significant unobservable inputs (Level 3) as defined in HKFRS 13.

At 31 December 2019, the investment property was pledged as collateral for bank acceptance notes and borrowings (note 24(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. LEASES

The Group as a lessor

The Group leases its investment property (note 14) in Hubei province, the PRC under an operating lease arrangement. Rental income recognised by the Group during the year was RMB700,000 (2018: RMB934,000), details of which are included in note 6 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under the non-cancellable operating lease with its tenant are as follows:

	2019	2018
	RMB'000	*RMB'000*
Within one year	**934**	934
After one year but within two years	**934**	934
After two years but within three years	**934**	934
After three years but within four years	**934**	934
After four years but within five years	**233**	934
After five years	**–**	233
Total	**3,969**	4,903

The Group as a lessee

The Group has lease arrangements as a lessee for various items of land, office premises, plant and equipment.

Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 41 to 45 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises have a lease term of 2 years, while that of plant and equipment has a lease term of 1 year. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (applicable before 1 January 2019)

	RMB'000
At 1 January 2018	11,690
Amortisation provided during the year	(326)
At 31 December 2018	11,364

At 31 December 2018, the land use right to which the prepaid land lease payments related was pledged as collateral for bank acceptance notes and borrowings (note 24(a)).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Right-of-use assets (applicable from 1 January 2019)

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold land *RMB'000*	Office premises *RMB'000*	Plant and equipment *RMB'000*	Total *RMB'000*
At 1 January 2019	**11,364**	**257**	**–**	**11,621**
Additions	**–**	**–**	**10,754**	**10,754**
Depreciation provided during the year	**(325)**	**(229)**	**–**	**(554)**
At 31 December 2019	**11,039**	**28**	**10,754**	**21,821**

At 31 December 2019, the leasehold land included in the right-of-use assets was pledged as collateral for bank acceptance notes and borrowings (note 24(a)).

(c) Lease liabilities (applicable from 1 January 2019)

The carrying amount of the Group's lease liabilities and the movements during the year are as follows:

	RMB'000
At 1 January 2019	**257**
New lease	**10,754**
Accretion of interest recognised during the year *(note 7)*	**11**
Payments	**(238)**
At 31 December 2019	**10,784**

The maturity analysis of the lease liabilities is disclosed in note 31(d) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2019

15. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(d) Other lease information (applicable from 1 January 2019)

The amounts recognised in profit or loss in relation to leases are as follows:

	2019
	RMB'000
Interest on lease liabilities	**11**
Depreciation of right-of-use assets	**554**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**10,984**
Total amount recognised in profit or loss	**11,549**

The total cash outflow for leases is disclosed in note 28(c) to the financial statements

(e) Operating lease commitments (applicable before 1 January 2019)

The Group leased certain of its office premises under operating lease arrangements, with leases negotiated with terms of two years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	RMB'000
Within one year	239
In the second to fifth years, inclusive	30
Total	269

16. COMPUTER SOFTWARE

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**63**	108
Addition	**45**	–
Amortisation provided during the year	**(15)**	(45)
At 31 December	**93**	63

NOTES TO FINANCIAL STATEMENTS

31 December 2019

17. DEFERRED TAX

The components of deferred tax assets and liabilities and their movements during the year are as follows:

	Arising from					
	Impairment provision on trade receivables	Accrued expenses	Depreciation allowance in excess of related depreciation	Tax losses	Exchange gains	Net deferred tax assets/ (liabilities)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	157	199	530	–	(401)	485
Deferred tax credited to profit or loss during the year *(note 11)*	112	107	40	700	259	1,218
At 31 December 2018 and 1 January 2019	**269**	**306**	**570**	**700**	**(142)**	**1,703**
Deferred tax credited/(charged) to profit or loss during the year *(note 11)*	**(269)**	**(306)**	**(570)**	**(700)**	**142**	**(1,703)**
At 31 December 2019	**–**	**–**	**–**	**–**	**–**	**–**

Notes:

(a) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to RMB58,648,000 (2018: RMB39,155,000) as at 31 December 2019.

(b) The Group has tax losses arising in Mainland China of RMB3,187,000 (2018: RMB1,550,782) that will expire in one to five years for offsetting against future taxable profits.

During the year, deferred tax assets have not been recognised in respect of these losses as the future profitability of the subsidiaries from which these tax losses arose is not assured and hence it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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18. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**68,469**	42,313
Work in progress	**903**	486
Finished goods	**19,626**	31,093
Merchandised goods held for trading	**19,184**	–
	108,182	73,892

19. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**141,741**	121,641
Less: Impairment *(note (b))*	**(3,893)**	(1,790)
Trade receivables — net	**137,848**	119,851
Bills receivables	**3,499**	5,000
	141,347	124,851

Notes:

(a) The Group's trading terms with its customers for the sale of goods and provision of processing services are mainly on credit, except for new customers and customers of the new energy operation, where payment in advance is normally required. The credit period is generally 30 to 150 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**93,488**	65,055
1 to 2 months	**18,135**	22,809
2 to 3 months	**11,359**	13,036
3 to 4 months	**12,278**	14,999
Over 4 months	**6,087**	8,952
	141,347	124,851

NOTES TO FINANCIAL STATEMENTS

31 December 2019

19. TRADE AND BILLS RECEIVABLES *(Continued)*

Notes: (Continued)

(b) The movement in provision for impairment of trade receivables is as follows:

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**1,790**	1,046
Impairment recognised, net	**2,103**	744
At 31 December	**3,893**	1,790

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the average of historical incurred credit loss experience on each ageing group of trade receivables. Generally, trade receivables are written off if they are not considered recoverable by the Group and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

At 31 December 2019

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Category:					
(i) Customers with good credit	**116,990**	**11,919**	**9,347**	**244**	**138,500**
(ii) Customers with credit deterioration	**–**	**–**	**–**	**3,241**	**3,241**
Gross trade receivables	**116,990**	**11,919**	**9,347**	**3,485**	**141,741**
Less: Expected credit losses	**(549)**	**(57)**	**(46)**	**(3,241)**	**(3,893)**
Net trade receivables	**116,441**	**11,862**	**9,301**	**244**	**137,848**
ECL rate	**0.5%**	**0.5%**	**0.5%**	**93%**	**2.8%**

At 31 December 2018

		Past due			
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Category:					
(i) Customers with good credit	94,650	–	9,355	14,324	118,329
(ii) Customers with credit deterioration	–	–	–	3,312	3,312
Gross trade receivables	94,650	–	9,355	17,636	121,641
Less: Expected credit losses	–	–	(94)	(1,696)	(1,790)
Net trade receivables	94,650	–	9,261	15,940	119,851
ECL rate	0%	0%	1%	9.6%	1.47%

(c) In the prior year, as at 31 December 2018, a subsidiary pledged trade receivables of RMB24,940,000 to secure a bank loan granted, as further detailed in note 24(a) to the financial statements.

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Deposits and other receivables	**11,544**	2,762
Prepayments	**5,812**	198
	17,356	2,960

Note: The financial assets included in the above balances relate to receivables for which there was no recent history of default. At 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

21. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	2019	2018
	RMB'000	*RMB'000*
Cash and bank balances	**53,169**	44,032
Less: Restricted cash *(note (c))*	**(17,475)**	(38,120)
Cash and cash equivalents	**35,694**	5,912

Notes:

(a) At 31 December 2019, the cash and bank balances of the Group denominated in RMB amounted to RMB34,957,000 (2018: RMB43,842,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are all pledged to a bank and made for varying periods of between five months and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks with no recent history of default.

(c) At 31 December 2019, a bank deposit of RMB17,475,000 (2018: RMB38,120,000) was pledged to a bank for the issuance of bank acceptance notes in respect of future settlement to suppliers of the Group (note 22(b)).

NOTES TO FINANCIAL STATEMENTS

31 December 2019

22. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**108,769**	91,872
Bills payables *(note (b))*	**34,951**	59,600
	143,720	151,472

Notes:

(a) The trade payables are non-interest bearing and are normally settled on 30-day terms.

An ageing analysis of the trade and bills payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**79,723**	68,216
1 to 2 months	**29,745**	45,953
2 to 3 months	**11,840**	–
Over 3 months	**22,412**	37,303
	143,720	151,472

(b) The bills payables are secured by a bank deposit of RMB17,475,000 (2018: RMB38,120,000) pledged to a bank.

23. OTHER PAYABLES AND ACCRUALS

		2019	2018
	Notes	***RMB'000***	*RMB'000*
Contract liabilities	*(a)*	**32,380**	–
Refund liabilities		**1,281**	–
Other payables	*(b)*	**1,678**	4,130
Due to directors	*(c)*	**1,246**	–
Due to the ultimate holding company	*(c)*	**1,208**	1,069
Due to a company controlled by a former director	*(c)*	**1,255**	4,326
Accruals		**6,797**	3,552
		45,845	13,077

Notes:

(a) Contract liabilities as at 31 December 2019 represented advance payments received from customers for the sale of steam, which will be recognised as revenue as the performance obligation is satisfied. Included in the balance is an amount of RMB2,590,000 due to a company which has a director who was a supervisor of the Distributor during the year.

There was no balance of contract liabilities as at 1 January 2018 and 31 December 2018 because the Group had not yet started the new energy operation in 2018.

(b) Other payables are non-interest-bearing and have an average term of three months.

(c) The amounts due to directors, the ultimate holding company and a company controlled by a former director as at 31 December 2019 are unsecured, interest-free and repayable on demand.

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24. BANK AND OTHER BORROWINGS

		2019			2018		
	Notes	**Interest rate per annum (%)**	**Maturity**	***RMB'000***	Interest rate per annum (%)	Maturity	*RMB'000*
Bank and other borrowings repayable on demand:							
Bank loan — secured	*(a)*	**4.2**	**2020**	**15,000**	4.4	2019	15,000
Other loan — secured	*(b), (c)*	**9**	**On demand**	**35,748**	–	–	–
				50,748			15,000

Notes:

(a) The Group had a bank facility in an aggregate amount of RMB45,000,000 (2018: RMB60,000,000), of which RMB15,000,000 (2018: RMB15,000,000) had been utilised as at the end of the reporting period. The bank facility is secured by the following assets:

		Carrying amount	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Property, plant and equipment	*13*	**15,020**	20,892
Investment property	*14*	**4,614**	4,878
Right-of-use assets	*15(b)*	**11,039**	–
Prepaid land lease payments	*15(a)*	**–**	11,364
Trade receivables	*19(c)*	**–**	24,940
		30,673	62,074

(b) The Group's other loan as at 31 December 2019 was borrowed from an independent third party to provide additional working capital to the cigarette packaging material operation of the Group. The loan is denominated in Hong Kong dollar, has a term of two years and is secured by the Group's equity interest in a wholly-owned subsidiary.

Pursuant to a supplemental agreement to the loan agreement entered into between the Company and the lender, the lender agreed to waive the loan interest for the first 12-month period, which amounted to HK$3,363,000 (equivalent to RMB2,967,000).

(c) The loan agreement of the other loan as at 31 December 2019 contains a repayment on demand clause and the expected repayment date of this loan as set out in the loan agreement is in January 2021.

25. DEFERRED GOVERNMENT GRANTS

The balance as at 31 December 2019 included subsidies of RMB944,000 (2018: RMB1,090,000) received from various government authorities in Mainland China for the purchase of plant and machinery to support the development of the cigarette packaging products business of the Group. The subsidies are interest-free and will be amortised over the expected useful lives of the relevant assets in accordance with the accounting policy for "Government grants" set out in note 2.4 to the financial statements.

26. SHARE CAPITAL

	2019		2018	
	HK$'000	***RMB'000 equivalent***	*HK$'000*	*RMB'000 equivalent*
Authorised:				
1,000,000,000 ordinary shares of HK$0.01 each	**10,000**		10,000	
Issued and fully paid:				
500,000,000 ordinary shares of HK$0.01 each	**5,000**	**4,459**	5,000	4,459

27. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) In December 2014, Mr. Zhang sold a 13.5% equity interest of Hubei Mengke to Mr. Fu at a consideration of RMB4,500,000 in exchange for five-year services provided by Mr. Fu as one of the key management personnel of the Group. The fair value of the equity interest sold to Mr. Fu is RMB7,000,000. The difference between the consideration and the fair value of the equity interest to Mr. Fu is treated as a share-based compensation expense which is amortised on the straight-line basis and charged as staff costs in profit or loss over the five-year service period, with a corresponding credit to the share-based compensation reserve. During the year, the share-based compensation expense recognised in profit or loss for employee services received in respect of the equity interest sold to Mr. Fu is RMB500,000 (2018: RMB500,000) and the accumulated share-based payment reserve of RMB2,500,000 in respect of this equity-settled transaction was transferred to retained profits as a reserve movement upon the completion of the five-year service period by Mr. Zhang in 2019.

(c) The merger reserve represents the difference between (i) the amounts at which the assets and liabilities are recorded under a business combination under common control in prior years, net of any reserves of the acquired entities; and (ii) the fair value of consideration paid for the business combination.

(d) The PRC statutory reserve is the reserve set aside in accordance with the PRC Companies Law as applicable to the Group's subsidiaries established in Mainland China. None of the Group's PRC statutory reserve as at 31 December 2019 was distributable in the form of cash dividends.

28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB10,754,000 each in respect of lease arrangements for plant and equipment.

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28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities

	Included in other payables and accruals				
	Due to a former director	**Due to a company controlled by a former director**	**Due to the ultimate holding company**	**Bank and other borrowings**	**Lease liabilities**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	736	1,350	–	14,980	–
Changes from financing cash flows	(736)	2,976	1,069	20	–
At 31 December 2018	–	4,326	1,069	15,000	–
Effect of adoption of HKFRS 16	–	–	–	–	257
At 1 January 2019 (restated)	**–**	**4,326**	**1,069**	**15,000**	**257**
Changes from financing cash flows	**–**	**(3,071)**	**139**	**35,288**	**(238)**
New Lease	**–**	**–**	**–**	**–**	**10,754**
Interest expenses	**–**	**–**	**–**	**–**	**11**
Exchange realignment	**–**	**–**	**–**	**460**	**–**
At 31 December 2019	**–**	**1,255**	**1,208**	**50,748**	**10,784**

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2019
	RMB'000
Within operating activities	**(10,984)**
Within financing activities	**(238)**
	(11,222)

29. RELATED PARTY DISCLOSURE

(a) Transactions and outstanding balances with related parties

Save as disclosed elsewhere in these financial statements, the Group had no other material transactions and outstanding balances with related parties during the years ended 31 December 2019 and 2018 or as at these dates.

(b) Key management personnel of the Group are directors of the Company, whose emoluments are included in note 9 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at 31 December 2019 and 2018 are classified as financial assets and liabilities at amortised cost, respectively.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, cash and bank balances. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are (a) interest rate risks, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has minimal use of derivatives and other instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash at banks with floating interest rates.

If interest rates had been 100 basis points (2018: 100 basis point) higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2019 would have increased/decreased by RMB507,000 (2018: loss before tax decreased/increased by RMB150,000).

(b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Owing to the fact that the functional currency of the Company and certain subsidiaries is Hong Kong dollar while the presentation currency of these financial statements is Renminbi, the Group's consolidated statement of financial position can be affected significantly by movements in the HK$/RMB exchange rate.

The following table demonstrates the sensitivity at the end of the reporting period to reasonably possible changes in the HK$/RMB exchange rate, with all other variables held constant, of the Group's profit/(loss) before tax.

	Increase/ (decrease) in profit before tax 2019 *RMB'000*	Decrease/ (increase) in loss before tax 2018 *RMB'000*
If HK$ weakens against RMB by 5%	**35**	54
If HK$ strengthens against RMB by 5%	**(35)**	(54)

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk

Maximum exposure and year-end staging

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the counterparty has good history of repayment, the Group's exposure to bad debts is not significant.

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and the year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2019			
Trade receivables*	**–**	**141,741**	**141,741**
Bills receivables	**3,499**	**–**	**3,499**
Financial assets included in prepayments, deposits and other receivables — normal**	**11,544**	**–**	**11,544**
Restricted cash — not yet past due	**17,475**	**–**	**17,475**
Cash and cash equivalents — not yet past due	**35,694**	**–**	**35,694**
At 31 December 2018			
Trade receivables*	–	121,641	121,641
Bills receivables	5,000	–	5,000
Financial assets included in prepayments, deposits and other receivables — normal**	2,762	–	2,762
Restricted cash — not yet past due	38,120	–	38,120
Cash and cash equivalents — not yet past due	5,912	–	5,912

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19(c) to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments is as follows:

	On demand and within one year *RMB'000*	**In the second year** *RMB'000*	**Total** *RMB'000*
At 31 December 2019			
Trade and bills payables	**143,720**	**–**	**143,720**
Financial liabilities included in other payables and accruals	**13,465**	**–**	**13,465**
Bank and other borrowings	**15,434**	**39,186**	**54,620**
Lease liabilities	**12,030**	**–**	**12,030**
	184,649	**39,186**	**223,835**
At 31 December 2018			
Trade and bills payables	151,472	–	151,472
Financial liabilities included in other payables and accruals	13,077	–	13,077
Bank borrowings	15,607	–	15,607
	180,156	–	180,156

At 31 December 2019, the other borrowing classified as repayable on demand was RMB35,748,000 (2018: Nil). The directors of the Company considered that it is not likely that the lender will exercise its discretionary right to demand immediate repayment.

NOTES TO FINANCIAL STATEMENTS

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31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its shareholders or issue new shares to increase capital. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is total debt divided by the total equity. Total debt includes bank and other borrowings, lease liabilities, amounts due to the ultimate holding company and a company controlled by a former director. The gearing ratios as at the end of the reporting periods were as follows:

	Notes	**31 December 2019** ***RMB'000***	**1 January 2019** ***RMB'000*** *(note)*	31 December 2018 *RMB'000*
Bank and other borrowings	*24*	**50,748**	**15,000**	15,000
Due to the ultimate holding company	*23*	**1,208**	**1,069**	1,069
Due to a company controlled by a former director	*23*	**1,255**	**4,326**	4,326
Lease liabilities	*15(c)*	**10,784**	**257**	–
Total debt		**63,995**	**20,652**	20,395
Total equity		**121,288**	**112,550**	112,550
Gearing ratio		**52.8%**	**18.3%**	18.1%

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's total debt and hence the Group's gearing ratio increased from 18.1% to 18.3% on 1 January 2019 when compared with the position as at 31 December 2018.

32. EVENT AFTER THE REPORTING PERIOD

The outbreak of the novel coronavirus (COVID-19) (the "COVID-19 Outbreak") has adversely affected and may continue to adversely affect the operating performance and financial position of the Group, mainly due to the suspension of the Group's operation in Hubei province of the PRC, travel restrictions and other precaution measures imposed by relevant local authorities that resulted in delays in delivery of products to customers. Meanwhile, due to the inherent nature and unpredictability of the future development of the virus and market sentiment, the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic. Accordingly, the financial impact of the COVID-19 Outbreak on the Group cannot be reasonably estimated at this stage.

NOTES TO FINANCIAL STATEMENTS

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33. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's presentation and disclosures.

As further explained in note 2.2(a) to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

	2019	2018
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**60,764**	56,538
CURRENT ASSETS		
Prepayments and other receivables	**7,894**	121
Due from subsidiaries	**57,497**	39,486
Cash and bank balances	**17,610**	124
Total current assets	**83,001**	39,731
CURRENT LIABILITIES		
Other payables and accruals	**1,807**	143
Due to the ultimate holding company	**–**	666
Due to subsidiaries	**16,087**	–
Other borrowing	**35,748**	–
Total current liabilities	**53,642**	809
NET CURRENT ASSETS	**29,359**	38,922
NET ASSETS	**90,123**	95,460
EQUITY		
Issued capital	**4,459**	4,459
Reserves (note)	**85,664**	91,001
Total equity	**90,123**	95,460

NOTES TO FINANCIAL STATEMENTS

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note: A summary of the Company's reserves is as follows:

	Share premium account	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	63,065	56,341	–	(27,295)	92,111
Loss for the year and total comprehensive loss for the year	–	–	–	(1,110)	(1,110)
At 31 December 2018 and 1 January 2019	**63,065**	**56,341**	**–**	**(28,405)**	**91,001**
Loss for the year and total comprehensive loss for the year	**–**	**–**	**–**	**(10,060)**	**(10,060)**
Exchange differences on translation of the Company's financial statements into its presentation currency	**–**	**–**	**4,723**	**–**	**4,723**
At 31 December 2019	**63,065**	**56,341**	**4,723**	**(38,465)**	**85,664**

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 May 2020.

FIVE YEAR FINANCIAL SUMMARY

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

CONSOLIDATED RESULTS

	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	319,273	310,708	238,310	217,491	**530,713**
Gross profit	66,373	64,594	44,947	32,949	**75,668**
Profit/(loss) for the year	21,892	(9,435)	4,724	(4,624)	**7,741**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	2015	2016	2017	2018	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Assets					
Non-current assets	52,478	51,110	49,987	47,454	**53,179**
Current assets	241,778	295,990	269,590	245,735	**320,469**
Total assets	294,256	347,100	319,577	293,189	**373,648**
Liabilities					
Current liabilities	239,696	234,268	201,667	179,549	**251,416**
Non-current liabilities	1,502	1,382	1,236	1,090	**944**
Total liabilities	241,198	235,650	202,903	180,639	**252,360**
Equity					
Total equity	53,058	111,450	116,674	112,550	**121,288**