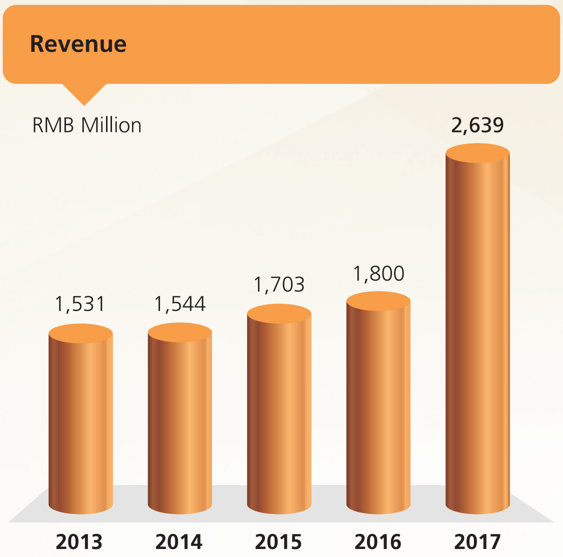
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司

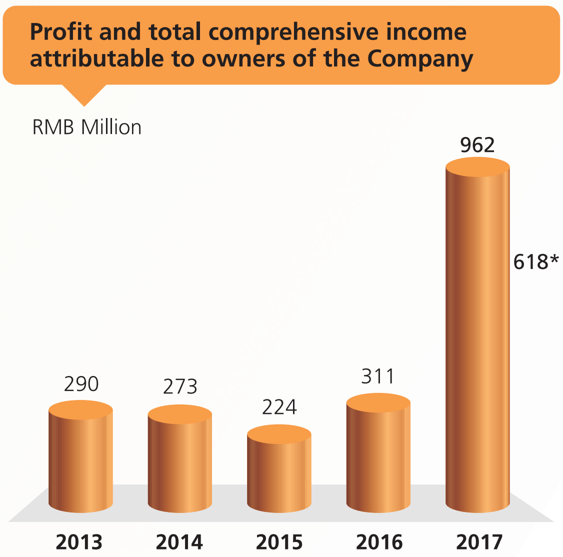
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2268)

2017
ANNUAL REPORT

Contents

FINANCIAL HIGHLIGHTS





* excluded the gain on deemed disposal of an associate

Executive directors

Mr. Ke Wentuo (柯文托)
Mr. Ke Jixiong (柯吉熊)
Mr. Cao Xu (曹旭)
Mr. Zhang Guoduan (張國端)

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Company secretary

Mr. Wong Yat Sum *FCCA, FCPA*

Authorised representatives

Mr. Ke Wentuo
Mr. Wong Yat Sum

Cayman Islands share registrar and transfer office

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

Hong Kong share registrar

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

Registered office

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

Headquarters in the PRC

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

Principal place of business in Hong Kong

7th Floor, Hip Shing Hong Centre
55 Des Voeux Road Central
Central, Hong Kong
(effective from 24 March 2018)

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong
(ceased to be the principal place of business of the Company in Hong Kong from 24 March 2018)

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

In Hong Kong:

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

In the PRC:

Bank of China
Industrial and Commercial Bank of China Limited

Auditor

RSM Hong Kong
Certified Public Accountants

Legal advisors

Hong Kong law:

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

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

Zhixin Caijing

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited annual results of the Group for the year ended 31 December 2017.

The economy in China attained an uptick in 2017 at 6.9% from 2016, the first year accelerated on the preceding since 2010. These were achieved on the back of the world economy picked up which resulted stronger exports, the strong domestic property sector and the gradual pace of US interest rate hikes which maintained supportive monetary conditions for emerging market growth. They indicated that China's economy is still resilient on the back of a long list of challenges: the rising US interest rates, tightening monetary policy and the increasing forceful trade restrictions imposed.

Retail sales via electronic commerce, sustained its strong momentum in China and grew 28.0% from 2016. China today is characterized by mobile-first consumer behaviour, vibrant social commerce adoption and a ubiquitous digital payment infrastructure. The booming growth of electronic commerce has propelled the Central Government to support the growth to achieve a more balanced mix of activities that drives the economy.

With these reform initiatives accomplishing solid progresses one after another, more sustainable growth is expected. Furthermore, restoration of the industry's bargaining power and the rapid development of online shopping has led to fundamental changes in consumption and logistics models, benefitting the paper industry.

Business Review

For the year ended 31 December 2017, the Group's revenue was approximately RMB2,638.8 million (2016: RMB1,799.5 million), representing an increase of approximately 46.6% from that of the previous year. Profit attributable to owners of the Company increased by approximately 209.7% to approximately RMB962.0 million (2016: RMB310.6 million). Basic earnings per share amounted to approximately RMB0.799 (2016: RMB0.262) per share.

During 2017, the paper manufacturing industry in China remained as a large beneficiary of China's undergoing supply side reform and maintained a healthy development. In light of the deepening supply-side reform and new demand derived from thriving electronic commerce in China, as well as an improving economic outlook in the US, supply and demand became more balanced on rising utilisation.

In spite of the balanced supply and demand dynamics, industry consolidation gathered pace in 2017. As China tightens its grip on pollution problems, unqualified and inefficient players will gradually be winnowed out of the paper industry, leaving an increasingly concentrated marketplace boding well for industry leaders with strong muscle in capital, technologies and equipment. The Group with superior bargaining power gained market shares from small plants.

Prices of raw pulp continued to remain steady partly attributed to the stringent environmental control that eliminated outdated capacities and disciplined supply. Similarly, prices of imported recycled pulp climbed up driven by China shaking off dependence on waste paper import, and yet the use of self-manufactured de-inked pulp mitigated such pressure.

As for finished paper products, the stable macroeconomic conditions in China and the expected income growth maintained prices of finished paper products at favourable level. Per capita consumption of paper products is expected to increase continuously.

China's buoyant electronic commerce industry remained as a dominant growth driver for paper products consumption in the future. Package-use paper products in China is mainly used for fast-moving consumer goods, electronics and pharmaceuticals products. This sustained demand for both machine-finished tissue paper and cardboard paper.

These are substantiated with the headline economic figures of the country during the year. Retail sales for the whole year of 2017 in China rose 10.2% year on year, according to the National Bureau of Statistics. Yet retail sales via electronic commerce rose 28.0% year on year during the same period. That is broadly in line with the government's goal to gradually shift to a consumption driven economy from an investment driven one.

Meanwhile, the booming of residential property market in China also sustained demand for wall paper products. The completion of the step-up acquisition of the wall paper business during 2017 which turned an associate into a subsidiary of the Group not just simply in a bid to diversify its businesses but also made tremendous contribution to its revenue and profits for the year.

Prospect and Strategy

Looking ahead, with more favourable support from the deepened reform and further improvement of the market supply and demand balance, as well as improving consolidation in the industry, the advantages of large enterprises with both economies of scale and operating efficiency will become more prominent. These adjustments also continue to provide strong support to product prices in general. The Group will continue to strive for opportunities stemming from the potential growth in demand and strengthen its top market leadership position by virtue of its advanced environmental governance and existing infrastructure conditions.

The Group has entered into a new stage of development with the freshly consolidated wall paper manufacturing business while it maintains continuous efforts in enhancing its traditional wrapping tissue paper business through upgrading and improving its existing production and ancillary equipment for production output and efficiency enhancement. The Group is committed to ensuring its equipment to be stayed abreast of the most advanced technology used in the industry. These strategies will facilitate better returns for shareholders in the long run.

Acknowledgements

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

Ke Wentuo
Chairman

Hong Kong, 22 March 2018

BUSINESS REVIEW

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In spite of the balanced supply and demand dynamics, industry consolidation gathered pace in 2017. As China tightens its grip on pollution problems, unqualified and inefficient players will gradually be winnowed out of the paper industry, leaving an increasingly concentrated marketplace boding well for industry leaders with strong muscle in capital, technologies and equipment. The Group with superior bargaining power gained market shares from small plants.

Prices of raw pulp continued to remain steady partly attributed to the stringent environmental control that eliminated outdated capacities and disciplined supply. Similarly, prices of imported recycled pulp climbed up driven by China shaking off dependence on waste paper import, and yet the use of self-manufactured de-inked pulp mitigated such pressure.

As for finished paper products, the stable macroeconomic conditions in China and the expected income growth maintained prices of finished paper products at favourable level. Per capita consumption of paper products is expected to increase continuously.

Investment in wall paper business

In February 2016, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) completed its acquisition of 41.0% equity interest in Xin Wing Enterprises Limited ("Xin Wing"). Xin Wing and its subsidiaries (together with Xin Wing, the "Xin Wing Group") are principally engaged in manufacturing and trading of wall paper products in China of its own branded wall paper products and also on OEM basis.

On 24 April 2017, Xi Yuan BVI entered into share purchase agreements with Ms. Ke Jinzhen ("Ms. Ke") and Cathay Capital Holdings III. L.P. ("Cathay Fund"), for the acquisition of 39.0% and 20.0% equity interest in Xin Wing, respectively. Ms. Ke irrevocably and unconditionally warranted and guaranteed to Xi Yuan BVI that the consolidated net profit after tax of Xin Wing for the financial year ending 31 December 2017 as stated in the 2017 audited financial statements shall not be less than RMB290 million. The acquisitions, on an aggregated basis, constituted a major and connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The acquisitions were approved by the independent shareholders at the extraordinary general meeting held on 15 June 2017. On 31 August 2017, the Group completed the acquisition of 39.0% of equity interest in Xin Wing from Ms. Ke and Xin Wing became a non-wholly owned subsidiary of the Group and its results, assets and liabilities will be consolidated into the accounts of the Group. As at the date of this report, the acquisition of 20.0% equity interest in Xin Wing from Cathay Fund has not been completed.

For further details of the acquisitions, please refer to the announcements of the Company dated 26 July 2016, 10 August 2016, 21 September 2016, 24 April 2017, 15 June 2017, 31 July 2017 and 31 August 2017 and the circular of the Company dated 25 May 2017.

Segmental Analysis

Wrapping tissue paper

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

Total revenue generated from wrapping tissue paper was RMB1,684.8 million, contributed to approximately 63.9% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper remained relatively stable at RMB217.4 million, contributed to approximately 8.2% of the Group's revenue for this reporting period.

BUSINESS REVIEW AND OUTLOOK

Wall paper products

Wall paper products including Polyvinyl Chloride ("PVC") wall paper, non-woven wall paper, fabric wall covering and wall paper backing paper. Total revenue generated from wall paper products was RMB535.3 million, contributed to approximately 20.3% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel, ivory boards and core boards, generated revenue of RMB201.3 million, and contributed to approximately 7.6% of the Group's revenue for this reporting period.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (in term of locations from which sales were originated), with over 87.6% of Group's revenue for the reporting period was derived from these two regions.

Operational Analysis

As at 31 December 2017, the Group operated 37 production lines with a designed annual production capacities of 418,000 tonnes in aggregate, including 225,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 106,000 tonnes for other products. In addition, the Group operated 14 production lines with a designed annual production capacities of 27 million rolls for wall paper products.

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

Prospects

Looking ahead, with more favourable support from the deepened reform and further improvement of the market supply and demand balance, as well as improving consolidation in the industry, the advantages of large enterprises with both economies of scale and operating efficiency will become more prominent. These adjustments also continue to provide strong support to product prices in general. The Group will continue to strive for opportunities stemming from the potential growth in demand and strengthen its top market leadership position by virtue of its advanced environmental governance and existing infrastructure conditions.

The Group has entered into a new stage of development with the freshly consolidated wall paper manufacturing business while it maintains continuous efforts in enhancing its traditional wrapping tissue paper business through upgrading and improving its existing production and ancillary equipment for production output and efficiency enhancement. The Group is committed to ensuring its equipment to be stayed abreast of the most advanced technology used in the industry. These strategies will facilitate better returns for shareholders in the long run.

Results

Revenue of the Group for the year ended 31 December 2017 was RMB2,638.8 million, representing an increase of approximately 46.6% from RMB1,799.5 million for the year ended 31 December 2016. Profit and total comprehensive income attributable to owners of the Company increased by approximately 209.7% from RMB310.6 million for the year ended 31 December 2016 to RMB962.0 million for the year ended 31 December 2017. The increases in profit and total comprehensive income attributable to owners of the Company were attributable to the increase in sales volume and average selling price of the Group's products, consolidating the results of Xin Wing Group since 1 September 2017, gain on deemed disposal of an associate and net foreign exchange gain due to depreciation of USD against RMB, the impact of which was partly set off by a result of higher income tax charged and high finance cost during the year.

Basic earnings per share for the year ended 31 December 2017 increased by 205.0% to RMB0.799 per share when compared with the RMB0.262 per share for the year ended 31 December 2016, based on the profit and total comprehensive income attributable to owners of the Company of RMB962.0 million (For the year ended 31 December 2016: RMB310.6 million) and the weighted average of 1,203,994,648 shares (For the year ended 31 December 2016: 1,186,072,075 shares) in issue during this reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB891.3 million for the year ended 31 December 2017 from RMB554.5 million for the year ended 31 December 2016. Overall gross profit margin of the Group increased from 30.8% for the year ended 31 December 2016 to 33.8% for the year ended 31 December 2017.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net loss of RMB65.9 million for the year ended 31 December 2016 to a net gain of RMB463.4 million for the year ended 31 December 2017, mainly due to gain on deemed disposal of an associate and the foreign exchange gain as a results of the depreciation of USD against RMB for the bank borrowings which were denominated in USD.

Share of profit of an associate

Share of profit of an associate of the Group was RMB67.0 million for the year ended 31 December 2017. On 31 August 2017, the Group completed the acquisition of 39.0% equity interest in Xin Wing Group, the results of Xin Wing Group was fully consolidated in the profit or loss of the Group since then.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 503.8% from RMB10.6 million for the year ended 31 December 2016 to RMB64.0 million for the year ended 31 December 2017, representing approximately 0.6% and 2.4% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 52.4% from RMB82.5 million for the year ended 31 December 2016 to RMB125.7 million for the year ended 31 December 2017, representing approximately 4.6% and 4.8% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in professional fees, depreciation charges for property, plant and equipment and other tax.

Finance costs

Finance costs of the Group increased by approximately 31.7% from RMB72.0 million for the year ended 31 December 2016 to RMB94.9 million for the year ended 31 December 2017, primarily due to an increase in the average balance of bank borrowings, convertible bonds and unsecured notes and a reduction the amount of capitalised interest for qualifying assets during this reporting period.

Interest rates of bank borrowings ranged from 3.35% to 5.46% for the year ended 31 December 2017, compared with 2.13% to 8.00% for the year ended 31 December 2016.

Other expenses

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

Taxation

Tax charge increased by approximately 18.6% from RMB76.6 million for the year ended 31 December 2016 to RMB90.8 million for year ended 31 December 2017. The increase in tax charge was mainly due to increase in profit from operating subsidiaries in the PRC. The Group's effective tax rates for the years ended 31 December 2016 and 2017 were 19.8% and 8.4%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB310.6 million for the year ended 31 December 2016 to RMB962.0 million for the year ended 31 December 2017. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased from approximately 17.3% for the year ended 31 December 2016 to approximately 36.5% for the year ended 31 December 2017.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production and finished goods for wall paper products. For the year ended 31 December 2017, the inventory turnover cycle was approximately 18.9 days* (For the year ended 31 December 2016: 27.9 days). Shorter inventory turnover cycle was mainly due better control on inventory management of the Group.

The turnover cycle of trade receivables for the year ended 31 December 2017 was 158.9 days* (For the year ended 31 December 2016: 145.3 days), the credit period granted to customers was ranged from 120 to 180 days. With deep understandings in its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

The turnover cycle for trade payables for the year ended 31 December 2017 was shortened to 48.9 days* (For the year ended 31 December 2016: 53.1 days), the credit period granted from our suppliers was ranged from 30 to 120 days.

* the calculation had taken into account of the effect of the acquisition of Xin Wing Group at the beginning of the year

Borrowings

As at 31 December 2017, the Group's bank borrowings balance amounted to RMB1,449.9 million, of which RMB660.1 million will be due for repayment within the next twelve months (As at 31 December 2016: RMB1,681.1 million, of which RMB519.6 million would be due for repayment within the next twelve months).

As at 31 December 2017, the Group's bank borrowings amounted to RMB1,252.9 million, carried at variable interest rates (As at 31 December 2016: RMB1,570.2 million).

As at 31 December 2017, the Group's net gearing ratio, which was calculated on the basis of total bank borrowings, convertible bonds and unsecured notes less bank balances and cash as a percentage of shareholder equity, was 34.3% (As at 31 December 2016: 44.7%).

Facility agreement

On 5 May 2016, the Company as borrower entered into the facility agreement with a syndicate of three banks for a 3.5-year term loan in the principal amount of US$115 million (the "Facility Agreement"). The Facility Agreement includes a condition imposing specific performance obligations on Mr. Ke Wentuo, the controlling shareholder of the Company (the "Controlling Shareholder") who is interested in approximately 56.11% of the issued share capital of the Company and short position in 13.91% of the issued share capital of the Company as of the date of the Facility Agreement and his associates (as defined in the Listing Rules), the breach of which will constitute an event of default under the Facility Agreement.

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

Pursuant to the Facility Agreement, it will be a change of control in the event that (i) the Controlling Shareholder and his associates collectively do not or cease to own at least 30% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 30% of the voting rights in the Company, free from any security; (ii) the Controlling Shareholder and his associates collectively do not or cease to have management control of the Company; (iii) the Controlling Shareholder and his associates collectively are not or cease to be the single largest shareholder of the Company; or (iv) the Controlling Shareholder is not or ceases to be the chairman of the Board.

On and at any time after the occurrence of such a change of control which is continuing, the facility agent to the Facility Agreement may, among others, cancel all the available facility and declare all or part of the loans, together with all accrued interest, and all other amounts accrued or outstanding pursuant to the Facility Agreement to become due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable.

Please refer to the announcement of the Company dated 5 May 2016 for details.

Convertible bonds

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

On 13 November 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 13 November 2018 (extendable for 6 months) ("November 2017 CB"), in the aggregate principal amount of US$20.0 million (approximately RMB130.4 million) with an initial conversion price of HK$4.98 per share of the Company (subject to adjustment). The November 2017 CB may not be redeemed by the company at any time prior to their maturity date or if extended the extended maturity date. Upon exercise in full of the subscription rights attaching to the November 2017 CB at the conversion price of HK$4.98 (subject to adjustment), which is a premium of approximately 5.06% to the closing price of HK$4.740 per share of the Company on 3 November 2017, being the date of the subscription agreement, a maximum of 31,325,301 shares of the Company are issuable under the General Mandate. No shares of the Company has been issued as at the date of this report under the November 2017 CB. The conversion rights under the November 2017 CB are exercisable during the conversion period commencing on the date after six months from the date of their issue date to 5:00 p.m. on the business day immediately before their maturity date or if extended, the extended maturity date. Details of the November 2017 CB are disclosed in the Company's announcement dated 3 November 2017.

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year) ("February 2018 CB") in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). The February 2018 CB may not be redeemed by the company at any time prior to their maturity date or if extended, the extended maturity date. Upon exercise in full of the subscription rights attaching to the February 2018 CB at the conversion price of HK$4.4625 (subject to adjustment), which is a premium of approximately 41.67% to the closing price of HK$3.15 per share of the Company on 23 January 2018, being the date of the subscription agreement, a maximum of 38,453,781 ordinary shares of the Company are issuable under the General Mandate. No shares of the Company has been issued as at the date of this report under the February 2018 CB. The conversion rights under the February 2018 CB are exercisable during the conversion period commencing on the date after twelve months from the date of their issue date to 5:00 p.m. on the business day immediately before their maturity date or if extended, the extended maturity date. Details of the February 2018 CB are disclosed in the Company's announcement dated 23 January 2018.

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

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

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

Use of net proceeds from the above convertible bonds

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

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

Dilution effect of the full conversion of Convertible Bonds

The following table sets out the dilution effect in the event that all outstanding convertible bonds were converted as at 31 December 2017.

Shareholder	As at 31.12.2017 (Note 1)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB (Note 2)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and November 2017 CB (Notes 2 and 3)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, November 2017 CB and February 2018 CB (Notes 2,3 and 4)	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Core connected persons								
Mr. Ke Wentuo and his close associates								
Smart Port Holdings Limited	665,560,500	53.51	665,560,500	51.65	665,560,500	50.43	665,560,500	49.00
Denron International Limited	28,677,000	2.31	28,677,000	2.23	28,677,000	2.17	28,677,000	2.11
	694,237,500	55.82	694,237,500	53.88	694,237,500	52.60	694,237,500	51.11
Giantwish International Limited	83,470,373	6.71	83,470,373	6.48	83,470,373	6.32	83,470,373	6.15
Everproud International Limited	41,930,000	3.37	41,930,000	3.25	41,930,000	3.18	41,930,000	3.09
Sub-total:	819,637,873	65.90	819,637,873	63.61	819,637,873	62.10	819,637,873	60.35
Public								
October 2017 CB holder	—	—	44,817,927	3.48	44,817,927	3.40	44,817,927	3.30
November 2017 CB holder	—	—	—	—	31,325,301	2.37	31,325,301	2.31
February 2018 CB holder	—	—	—	—	—	—	38,453,781	2.83
Cathay Special Paper Limited	100,147,500	8.05	100,147,500	7.77	100,147,500	7.59	100,147,500	7.37
Other public Shareholders	323,940,339	26.05	323,940,339	25.14	323,940,339	24.54	323,940,339	23.84
Total:	1,243,725,712	100	1,288,543,639	100	1,319,868,940	100	1,358,322,721	100

Notes:

1. Assuming all shares of the Company bought back by the Company in 2017 were cancelled as at 31 December 2017
2. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625
3. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98
4. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625

Dilution impact on earnings per share ("EPS")

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

	RMB
Profit for the year ended 31 December 2017 attributable to owners of the Company	961,981,000
	Number of shares
Number of Company's shares in issue as at 31 December 2017 (assuming all shares of the Company bought back during the year have all been cancelled as at that date)	1,243,725,712
Number of Company's shares in issue upon full conversion of all the convertible bonds as at 31 December 2017 (Notes 1,2 and 3)	1,358,322,721

	RMB
EPS	0.77
Diluted EPS assuming full conversion of the Convertible Bonds	0.71

Notes:

1. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625.
2. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98.
3. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625.

Financial and liquidity position of the Company

As at 31 December 2017, the Group had net current assets of RMB1,262,907,000. The Company does not require repaying all the convertible bonds at one time as the maturity dates of the convertible bonds are different.

Additional information of the convertible bonds issued by the Company, including but not limited to, analysis on the financial and liquidity position of the Group are set out in the note 28 to the consolidated financial statements.

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

Bondholders to convert or redeem

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

Unsecured notes

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

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

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

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

Under the transaction documents in connection with the issue of the above unsecured notes, Mr. Ke Wentuo, as the guarantor, has undertaken to maintain his status as the single largest shareholder of the Company holding not less than 30% shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the respective transaction documents in connection with the issue of the above unsecured notes (collectively, the "Specific Performance Obligations under the unsecured notes"). A breach of the Specific Performance Obligations under the unsecured notes will constitute an event of default under the unsecured notes which would entitle the noteholder(s) to require the Company to redeem its/their notes.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

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

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

As at 31 December 2017, the Group's total equity attributable to owners of the Company amounted to RMB3,792.2 million (2016: RMB2,721.4 million).

The Group's net current assets was approximately RMB1,262.9 million (2016: RMB500.7 million) and the Group had cash and cash equivalents of approximately RMB846.3 million (2016: RMB465.2 million).

As at 31 December 2017, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the year) was approximately 1.86 times (2016: 1.64 times).

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

Pledge of assets

As at 31 December 2017, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB460.1 million (As at 31 December 2016: RMB237.9 million) as collaterals to back the credit facilities granted to the Group.

FOREIGN CURRENCY EXPOSURE

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

Human Resources Management

As at 31 December 2017, the Group employed approximately 1,900 staff members (As at 31 December 2016: approximately 1,500) and the total remuneration for the year ended 31 December 2017 amounted to approximately RMB81.2 million (For the year ended 31 December 2016: RMB68.5 million). The Group's remuneration packages commensurate with experiences and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board does not recommend declaration and payment of any final dividend for the year ended 31 December 2017 (For the year ended 31 December 2016: Nil).

Dividend Policy

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

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

Closure of register of member

The register of members of the Company will be closed from 17 May 2018 to 23 May 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 16 May 2018 for registration of transfer.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ke Wentuo (柯文托), aged 61, is the founder of our Group and Chairman of our Company. Mr. Ke was appointed as Executive Director on 12 October 2009. He is primarily responsible for our overall strategies, planning and business development. Mr. Ke graduated and earned a college diploma from Fujian College of Forestry (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr. Ke has more than 15 years of experience in paper manufacturing. Mr. Ke has been a vice-president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr. Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Zhangzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議漳州市委員會) since January 2012. Mr. Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making* (中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr. Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr. Ke Jixiong (柯吉熊), aged 34, joined our Group in 2002 and is the chief executive officer of our Company. Mr. Ke Jixiong was appointed as an Executive Director on 6 January 2010. Mr. Ke Jixiong is the son of Mr. Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distant learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr. Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award* (晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference* (中國人民政治協商會議福建省晉江市委員會). He plays an instrumental role in formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and that our production plans, are implemented on schedule, such as introducing de-inking facilities to produce de-inked pulp in house.

Mr. Cao Xu (曹旭), aged 53, joined our Group in 1997 and was appointed as an Executive Director on 6 January 2010. Mr. Cao is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and earned a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr. Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三冶金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr. Zhang Guoduan (張國端), aged 54, joined our Group in 2008 and was appointed as an Executive Director on 6 January 2010. In 1998, Mr. Zhang completed an 18-month course at Xiamen University* (廈門大學) majoring in economics and management. Mr. Zhang has 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr. Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

Independent Non-Executive Directors

Prof. Zhang Daopei (張道沛), aged 81, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Zhang graduated from Dongbei Industrial College* (東北工學院) (now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University* (河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建造紙學會) from 1994 to 2007.

Prof. Chen Lihong (陳禮洪), aged 48, is a professor at the Fujian University of Technology* (福建工程學院). Prof. Chen Lihong also currently serves as the head of the water and wastewater engineering department* (給排水教研室主任) at the College of Ecological Environment and Urban Construction (生態環境與城市建設學院) of Fujian University of Technology. Prof. Chen Lihong also holds several other positions, including the deputy committee member of the Construction and Water Industry Committee of the Engineering, Construction, Science and Technology Standardization Association of Fujian Province* (福建省工程建設科學技術標準化協會建築水工業委員會副主任委員), committee member of the Water and Wastewater Engineering Academic Committee of the Fujian Province Civil Engineering Society* (福建省土建學會給排水學術委員會委員) and a member of the standing committee of the Architectural Society of China Water Supply and Wastewater Association* (中國建築學會建築給水排水研究分會第二屆院校委員會常務委員).

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

Senior management

Mr. Wong Yat Sum (黃一心), aged 41, is our Chief Financial Officer and our Company Secretary. Mr. Wong joined our Group in 2009 and is responsible for the budget, financial management and control of our Group. Mr. Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr. Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. He is a non-executive director of Winson Holdings Hong Kong Limited (stock code:8421) since 21 February 2017. Prior to joining our Group, Mr. Wong was a financial controller for a wood-flooring company in Shanghai, China, where he was responsible for finance, treasury, business planning and risk management.

Mr. Liao Chunxiang (廖春祥), aged 53, is Deputy General Manager of Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"). Mr. Liao joined our Group in 2008 and is responsible for managing manufacturing processes at Huaxiang. As Mr. Liao is also a member of our research and development centre, where he participates in our research and development projects. Mr. Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr. Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr. Ke Hongchi (柯鴻池), aged 43, is Sales Manager of our Group and is responsible for business development and sales. Mr. Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣職業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and joined our Group in 1994. Mr. Ke Hongchi is responsible for sales development and the management of the sales team of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Since the establishment of Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Huaxiang in 2006, he has also been responsible for overseeing sales development and managing the sales team of Xiyuan and Huaxiang.

Mr. Chen Changxing (陳長興), aged 54, is Manager of our research and development centre. Mr. Chen joined our Group in 2006 and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr. Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr. Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr. Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr. Shuai Liangming (帥亮明), aged 53, is Quality Control Manager of Huaxiang. Mr. Shuai joined our Group in 2008 and is responsible for quality control at Huaxiang. As Mr. Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr. Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr. Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr. Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr. Wu Xiaoxi (吳曉曦), aged 56, is Head of Electrical Engineering Department of Huaxiang. Mr. Wu joined our Group in 2000 and is responsible for the management of matters relating to electrical engineering at Huaxiang. As Mr. Wu is also member of our research and development centre, he also participates in our research and development projects. Mr. Wu graduated from Fuzhou University* (福州大學) in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr. Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Ms. Yan Yahong (顏雅紅), aged 35, is Deputy Manager of our Purchasing Department. Ms. Yan joined our Group in 2009 and is responsible for raw materials purchasing of our Group. Ms. Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms. Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

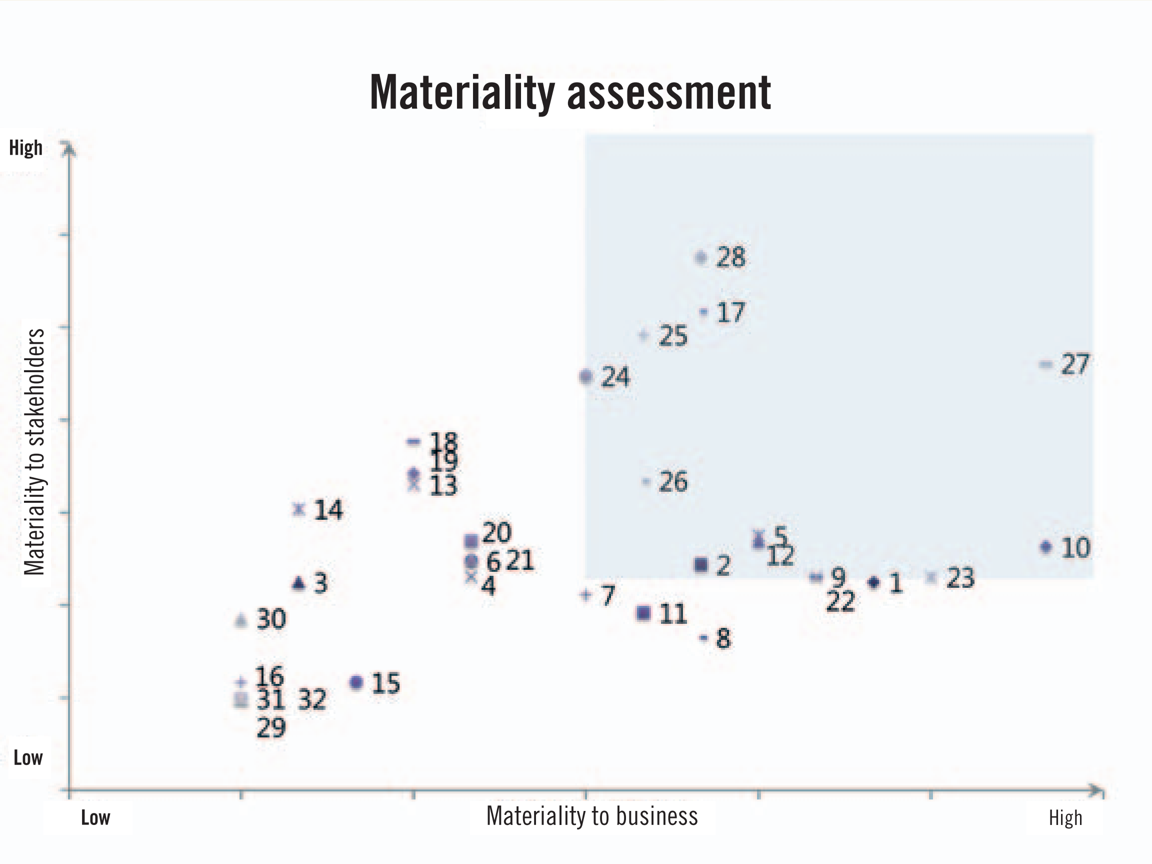
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is responsible for assessing and determining the Group's exposure to environmental, social and governance risks and ensuring that the Group has established appropriate and effective management and internal control systems respectively. This report highlights the environmental and social policies and performance during the reporting period from 1 January 2017 to 31 December 2017, covering four manufacturing plants, Youlanfa plant and Huaxiang plant based in Jinjiang, Xiyuan plant based in Longhai and Shengliya plant based in Zhangzhou (collectively referred to as the "Plants").

Environmental, Social and Governance Management Strategy

During the preparation of this report, stakeholders participation helps analyzing the concerns and assessing the materiality about the Group's environmental, social and governance of all interested individuals and organizations. Stakeholders include the Group's employees, customers, suppliers, shareholders, investors, regulatory bodies, the media and government agencies. We believe that stakeholders' participation will influence the Group's formulation of strategies for sustainable development and the fulfillment of its social responsibilities and is the basis for the Group's strategy formulation and decision implementation.

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



Topics

*	1	Types of emissions and respective emissions data
*	2	Total greenhouse gas emissions and intensity
	3	Total hazardous waste generated and intensity
	4	Total non-hazardous waste generated and intensity
*	5	Measures to mitigate emissions and results achieved
	6	Ways to handle hazardous and non-hazardous wastes, reduction initiatives and results achieved
	7	Total direct and/or indirect energy consumption and intensity by types
	8	Total water consumption and intensity
*	9	Details of energy use efficiency initiatives and results achieved
*	10	Any issue in finding proper water source, enhancing use of water efficiency initiatives and results achieved
	11	Total packaging material used for finished products and with reference to per unit produced
*	12	Significant impacts on the environment and natural resources and the remedies taken
	13	Total workforce by gender, position, age and geographical region
*	14	Employee turnover rate by gender, age and position
	15	Number and rate of work-related casualties
	16	Lost of working days due to work injuries
*	17	Occupational health and safety measures adoption, implementation and monitoring
	18	Percentage of employees being trained by gender and position
	19	Average training hours completed per employee by gender and position
	20	Details about the review of employment practices to avoid child and forced labour
	21	Steps taken to eliminate child and forced labour if found
*	22	Number of suppliers by geographical region
*	23	Practices relating to engaging suppliers, number of suppliers where such practices are being adopted and respective implementation and monitoring
*	24	Percentage of products sold or shipped subject to recalls due to safety and health reasons
*	25	Number of complaints received concerning about products and services and the respective mitigations
*	26	Practices relating to observing and protecting intellectual property rights
*	27	Quality assurance process and recall procedures
*	28	Consumer data protection and privacy policies and respective implementation and monitoring
	29	Number of concluded legal cases regarding corruption brought against the issuer or its employees during the reporting period and the outcomes
	30	Preventive measures and whistle-blowing procedures regarding corruption and respective implementation and monitoring
	31	Main focus of social contribution
	32	Resources contribution to the main focus (e.g service hour, donation)

* Relatively material topics

Environmental aspects

The Group attaches great importance to the impact of production operations on the environment, the ecosystem and related potential risks. It adheres to the principle "reduction of waste for the community begins with us" and perseveres in recycling. The Group strictly abides by the national and local environmental laws, regulations and related requirements, and has obtained ISO14001 certification in environmental management. It was also rated as one of the top ten environmentally friendly enterprises in the paper industry by the Association of Paper Industry of Fujian Province.

Emissions

The Group strictly manages "three wastes" (wastewater, waste gas and solid waste). The Plants have already established relevant systems including "System of environmental protection management", and stringently follows the relevant standards in relation to wastewater and waste gas emission, such as "Standard of discharging water pollutants for pulp and paper industry" DB35/1310-2013, "Standard of discharging wastewater to municipal sewers" GB/T 31962-2015 and "Standard of air pollutants emission from boiler" GB13271-2014.

Air pollutant emissions

The emission of air pollutants mainly comes from the use of coal-fired boilers of the plants and company vehicles. During the reporting period, the data of air pollutant emissions[1] are as follows:

Emission type	Emissions (tonnes)
Nitrogen oxides	232.96
Sulfur oxides	140.58
Particulate matter	139.84

In order to control the respective emissions, the Group's coal-fired boilers at the Youlanfa, Huaxiang and Xiyuan plants are all equipped with emission reduction equipment to ensure that emissions stay lower than the applicable emission standards permitted by the Chinese laws and regulations. The plants reduce nitrogen oxide emissions through a selective non-catalytic denitrification facility and use electrostatic precipitators and dual-alkali desulfurization system to control particulate emissions and sulfur dioxide emissions.

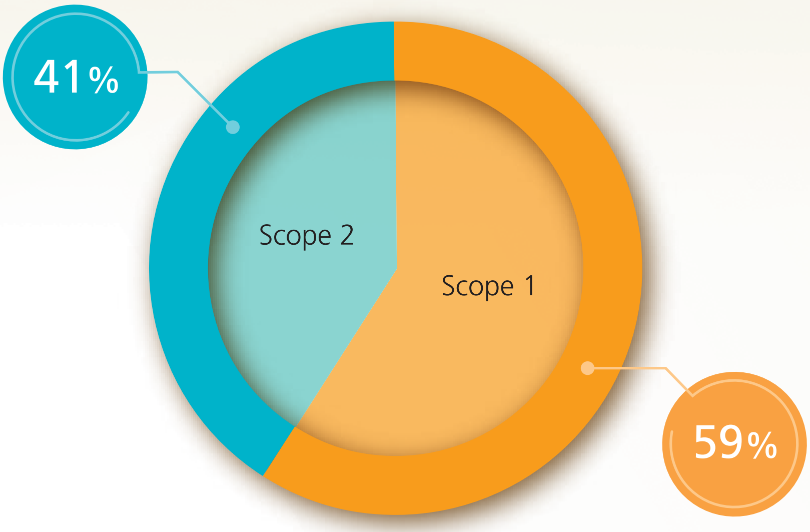
[1] The data of Youlanfa plant comes from its self-monitoring. As the other plants do not monitor their own emission data, they are estimated based on the following information: "The First National Pollution Source Survey - Manual on Industrial Pollution Emissions Coefficient" and "Technical Guidelines for the Preparation of Air Emissions of Road Vehicles". Estimated data may deviate from the actual emissions, we will strive to improve the accuracy of these data.

Since these data are disclosed for the first time, the quantitative results of such measures are not included.

Greenhouse gases emission

We are committed to take initiatives in response to climate change and striving to reduce risks with the most effective measures. The Group takes actions to reduce greenhouse gas emissions generated from its business operations. We have implemented the energy conservation measures described in the "Resources use" section. Data of greenhouse gases emissions[2] are as follows:

Greenhouse gas emissions (tonne of CO2 equivalent)



Scopes of greenhouse gas emissions	**Emissions (tonne of CO2 equivalent)**
Scope 1[3]	272,697.86
Scope 2[4]	192,925.46
Total greenhouse gas emissions	465,623.32
Total greenhouse gas emission intensity (Per tonne of products' raw materials[5])	1.76

[2] The Group's calculation of greenhouse gas emissions is based on "The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standards".

[3] Scope 1: Direct emissions from operations that are owned or controlled by the Group, mainly come from the use of steam boilers and fuels for company vehicles.

[4] Scope 2: "Indirect energy" emissions resulting from internal consumption by the Group (purchased or acquired) of electricity, heating, cooling and steam, mainly come from the use of electricity.

[5] Raw materials include pulp, backing paper, non-woven paper and type II cloth.

Wastewater and solid waste processing

The major raw materials for papermaking are waste paper and commercial wood pulp. The wastewater and sludge generated from papermaking mainly come from the pulping and spreading process. Currently, wastewater collection and piping systems for recycling are established in all the Plants of the Group, using biochemical and other advanced techniques for wastewater treatment. In order to comply with applicable laws and regulations, we have obtained all necessary permits in respect of wastewater discharge and solid waste disposal. The plants are subject to environmental inspection conducted by the government and has never been charged with serious violations of any Chinese environmental laws or regulations, or has to pay any fines therefor. We have met or even exceeded the relevant standards of China's environmental laws and regulations. During the reporting period, the Group's plants generated 1.36 million tonnes of wastewater. According to the self-monitoring data, the wastewater discharge from Xiyuan Plant and Youlanfa Plant[6] are as follows:

	Emissions (tonnes)	
Wastewater	**Xiyuan Plant**	**Youlanfa Plant**
Ammonia nitrogen	0.4	0.300
Chemical oxygen demand	20.2	7.204
Biochemical oxygen demand	—	2.598
Suspended solids	—	1.417
Total nitrogen	—	0.495
Total phosphorus	—	0.002

In addition, the Group's solid waste is mainly non-hazardous waste generated during papermaking without significant hazardous waste. Waste includes fuel residue, household garbage and papermaking sludge. Sludge mainly contains a large quantity of suspended and soluble organic solids such as fibers, fillers and rubber compounds, and some inorganic substances. Based on the concept of implementing a recycling economy, the Group aims to maximize the recycling of solid waste by strengthening technological innovation and improving recycling facilities for comprehensive utilization of resources. The Plants have temporary stacking sites for solid wastes, and specialised staff members are responsible for categorizing the garbage into recyclable and non-recyclable wastes. The sludge produced during the operations is treated and used to produce cardboards, while deinked pulp, recycled pulp and white waste paper are used as raw materials. The amount of solid waste[7] produced during the reporting period is as follows:

Type of waste	**Amount (tonnes)**
Sludge	2,601.35
Coal ash, cinder	16,682.12
Household garbage	741.01
Total	20,024.48
Intensity (per tonne of products' raw materials)	0.08

6 As Xiyuan Plant and Youlanfa Plant are listed as enterprises with heavy pollution in Fujian Province, they have to monitor their own data. However, Huaxiang and Shengliya plants have not been listed, so there is no such data available.

7 Since these data are disclosed for the first time, the quantitative results of such measures are not included.

Resources use

In order to achieve sustainability of resources, the Group insists starting from basic, such as promotes water-saving and electricity-saving awareness through publicity campaigns and selects water-saving and energy-saving equipment reasonably. Also, we have established an "Energy management system".

For production, the Group maintains strict controls in respect of storage and access of raw materials and uses optimized and energy-saving facilities to ensure raw material is effectively used. Water consumed by the Group is purchased from third party suppliers and there was no material supply issue. Ancillary treatment facilities improve the quality of used water for reuse so as to reduce tap water consumption. In order to reduce water consumption, the Plants equip with water recycle and storage system and sewage treatment facilities to collect wastewater generated in the deinking process and the white water generated in the production process[8]. Wastewater generated in the deinking process accumulates in the wastewater tank and removes the suspended solids through air flotation. Afterwards, the water is transmitted to the recycle tank, where contaminants are filtered, for reuse in the production process. The left over waste is discharged into the sewage tank for pressure filtration. After dehydration, the waste will be shipped to independent third parties for further processing. As for the white water generated during the production process that contains trivial fibers and pulp waste, those are extracted through a number of filtration and decontamination procedures and will be recycled and reused in the papermaking process. The treated white water will also be reprocessed and reused. Coal-fired units recycle condensed water through a steam condensate recycling system, maximize the use of heat from condensed water, thereby saving the use of water and coal simultaneously.

To promote the in-house publicity of water conservation, the Group sticks up posters about water conservation at its offices and workshops to enhance staff's awareness and consciously develop water saving practice. Control valves are also installed on the taps to control water flow so as to reduce the waste of water. Office and daily used water is recycled to the greatest extent instead of being dumped anywhere, reducing unnecessary wastage. We also use water saving equipment, advanced water saving technology and production process, and enhance routine check and maintenance of water equipment, pipelines, tanks and other facilities to resolve evaporating, emitting, dripping or leaking in a timely manner.

During the reporting period, the total water consumption[9] was 3,160,795 tonnes, and its intensity was 11.94 tonnes/tonne of products' raw materials.

As for electricity consumption, the Group uses energy-efficient lighting system and low-electricity consumption mechanical equipment and increases power inverters to reduce power consumption. The Group actively improves the operation mode, enhances the level of electricity management standard and optimizes the combination of different abrasive discs and upgrades the production lines to reduce the pulp grinding time for power saving. In addition, we also make greater efforts to promote our in-house power saving through the following measures:

- Sticking up posters about power saving at offices and workshops to enhance knowledge of power saving
- Installing timers in lighting system to put an end to unreasonable electricity consumption
- Using electrical appliance with high efficiency and low power consumption such as LED lights to eliminate ordinary incandescent bulbs
- Using air conditioners with low power consumption to eliminate the old ones
- Setting air conditioners to 26℃ when used so as to ensure reasonable and environmental use and avoid unnecessary waste

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

9 Since these data are disclosed for the first time, the quantitative results of such measures are not included.

As for fuels consumption, circulating fluidized bed boilers are used to improve coal consumption efficiency. Such boilers are also equipped with waste heat recovery system that allows the Group to make good use of renewable energy to reduce the consumption of coal. In addition, the Group strictly controls the quality of coal to ensure complete and effective combustion, and prevents the loss of energy under the wind by constructing a solid coal pile. Operators at boiler workshop strictly adhere to operating procedures to improve the utilization of coal, thereby reducing unnecessary waste.

During the reporting period, resources used[10] are as follows:

Resources	**Energy consumption (MWh)**
Raw coal	781,587
Diesel	205
Gasoline	458
Electricity	289,200
Natural gas	20,262
Total energy consumption	1,091,712
Total energy intensity (per tonne of products' raw materials)	4.12

Paper and packaging materials management

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

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

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

If packaging materials that cannot be reused due to damage, pleats, etc. should be collected and handled in a timely manner and should not be stacked or discarded at will. All unusable packaging materials can be pulped and should be recycled as much as possible.

During the reporting period, use of packaging materials [11] is as follows:

Packaging materials	**Amount used**	**Unit**
Inner wrapping paper	14,760	pcs in thousands
Outer carton	4,003	pcs in thousands
Blue kraft linerboard	3,243	tonnes
Plastic plug	1,951	pcs in thousands
Paper tube	1,720	tonnes

[10] Since these data are disclosed for the first time, the quantitative results of such measures are not included.
[11] Due to wide variety of packaging materials, only highly consumed types of materials are listed.

Environment and natural resources

The Group attaches great importance to environmental issues and the use of natural resources. To reduce the impact of waste gas and wastewater generated in the ordinary course of business on the environment, the Group has implemented relevant emission reduction measures. The Group highly appreciates the use of resources, promotes environmental protection ideas, such as energy conservation, emission reduction and the efficient use of natural resources. Apart form paper, the Group requires its plants to recycle various packaging materials and production materials, including: paper tubes, cartons, hairy tubes, hoses, scrap iron, scrap copper and packaging bags, etc. The Group attaches great importance to greening works of its area of operations. The greening area of the Plants is relatively high. In addition, most of the outdoor lighting systems in the plant area use solar energy storage systems to make good use of solar energy and thereby indirectly saving energy. In order to reduce the generation of solid waste, the Group requires employees to reduce food waste.

The primary raw materials of the Group are paper pulp which might indirectly lead to deforestation. To ensure that such pulp is sourced from legal and sustainable suppliers, three of the Group's plants have obtained the Chain of Custody certification from the Forest Stewardship Council (FSC), which certifies the plants' purchase of paper pulp, manufacturing and sales of paper and toilet paper have achieved FSC 100% and FSC MIX labeling certification. FSC certification represents the materials used are all produced from well-managed forests or other regulated resources. In addition, in order to increase employees' awareness of environmental protection, the Group voluntarily clean up street and community garbage in the community from time to time and participate in local tree planting activities.

Social aspects

Employment and labour practices

Employment

The Group believes employees are one of the most important assets. As the business continues to grow, it is necessary to build sustainable human resources, recruit and retain talents and create a healthy and safe working environment.

The Group strictly abides by the provisions of labour laws and regulations, including the Labour Law, the Employment Promotion Law, the Labour Contract Law and the Social Insurance Law, and the laws relating to standardization of labour hours and overtime hours, including the Regulation on Labour Security Supervision of the People's Republic of China as well as the provisions of the State Council on the working hours of the staff, the regulations on minimum wage and other relevant labour laws and regulations. The Group also actively prevents child labour and forced labour.

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

We have formulated the "Recruitment management system" to recruit employees with emphasis on "both ability and integrity of the staff and development for mutual benefits of the employees and the company" to ensure that all candidates receive reasonable and equal consideration. Through internal competition, the Group creates an echelon of talents to expand staff promotion channel and rooms for development, so as to enhance staff resources of the Company. Performance appraisal meetings are regularly held to offer reasonable promotion opportunities for the eligible and hard-working staff. In terms of training, we develop training programs and courses based on different departments and types of work and evaluate the effectiveness of the training of each employee after the courses completed. The Group also regularly assigns staff members to conduct outreach trainings to enhance their knowledge, skills and techniques that related to their duties.

In case an employee resigns during probation period or is fired due to failure to comply with the Group's requirement, such employee or the department where he works shall give one-week notice and the resignation or dismissal shall come into effect upon the approval by the management concerned, and the human resource and administration department shall urge the employee to follow the dismissal procedures pursuant to the related resignation process.

After an employee becomes a permanent staff member, the employee who is in violation of the employment contract will be dismissed or counseled out with one-month written notice, and will be paid according to the Labour Law. Permanent staff member shall give one-month notice to the department where he works in case of resignation, the manager of which shall then notify the human resource and administration department.

In order to improve the remuneration system and the system of reward and punishment, the Group has formulated the "Management measures on remuneration of employee"and the remuneration benchmark, which differentiates basic remuneration levels in accordance with roles, number of working years, technical positions, duties and so on in order to give employees competitive remuneration packages. Employee benefits, working hours and rest time are clearly stated in the employment contracts, while permanent employment contracts, contracted employment contracts and secondment contracts are signed pursuant to local employment laws.

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

The Group actively communicates with its employees through various channels, including posters on a billboard, e-mails, employee manual, managers' meetings, president's mailbox, internal audit hotline and complaints hotline. In addition, the Group also actively organizes different employee activities. During the reporting period, the Group held talent shows, tourism activities, sports competitions, etc.

As of the end of the reporting period, distribution and turnover rate of employees [12] are as follows:

Staff distribution

By gender

Male	1,232
Female	665
Total	1,897

By age

29 or below	367
30-39	518
40-49	690
50 or above	322
Total	1,897

By positions

Assistant general manager and above	15
Senior manager	1
Manager	25
Assistant manager	43
General staff	279
Operation staff	1,534
Total	1,897

Turnover rate

By gender

Male	49%
Female	37%

By age

29 or below	73%
30-39	40%
40-49	36%
50 or above	36%

12 Including employees on secondment

Health and safety

The Group's motto is "safety first, health first". It is committed to maintaining the health of employees and offering them a safe working environment. The Group strictly abides by relevant laws and regulations such as Production Safety Law, Prevention and Control of Occupational Diseases Law of the People's Republic of China and Industrial Accident Insurance Regulations and the Occupational Safety and Health Ordinance of Hong Kong. It has set up the relevant health and safety management system for its business operation.

We are committed to providing employees with clean, non-smoking, healthy and safe working environment. We have established "Management system of occupational health", under which annual body checks for staff are organized. Besides, 6S safety evaluation is organized monthly, while daily cleaning is arranged in every workplace to ensure that the working environment is clean and tidy. All emergency exits in the workplace are kept unblocked and unlocked.

Furthermore, the Group attaches great importance to the safety management of the plant area and passed the level three production safety as at 31 December 2013. Job responsibilities for all positions, operating procedures and rules for safety practices are formulated, such as working with protective equipment, posting notices about occupational hazards and warning signs, regular inspection of workshop facilities and equipment, etc. When new projects are put into operation, the Group carefully conducts evaluation of the engineering design pursuant to the "Procedures for equipment management" and the safety management to identify any problems and provide and maintain the infrastructure necessary to ensure product compliance and safety in the course of production.

The Group conducts pre-service training in health and safety, and training in emergency management, machine operation and handling hazardous materials in accordance with the relevant positions of employees to improve their safety awareness and avoid accidents caused by incomprehension. For example, employees who are exposed to noise need to wear earplugs, employees who are exposed to dust are urged to wear dust masks and employees who are exposed to radiation hazards are required to wear good radiation dose cards to monitor whether the dose exceeds safety standards. Meanwhile, specialised personnel is put in charge of safety management to minimize hidden dangers in a timely manner.

During the reporting period, the Group held two fire drills, supported the air defense evacuation drills organized by the Jinjiang Municipal Government and organized monthly safety training and weekly safety meetings. The Group did not suffer any losses arising from casualties or lost of working days due to work injury.

Development and training

The Group attaches great importance to the career development of each employee and sets up corresponding training plans for each subsidiary.

The remuneration packages provided by the Group to its employees include salaries, bonuses and other cash subsidies. In general, we determine the salary of employees based on their respective qualifications, positions and seniority. We have conceived an annual assessment system to assess the performance of employees. The assessment results are used to determine the staff's salary increment, bonus and promotion. We also provide employees with comprehensive training to enhance their skills and career development.

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

Furthermore, the Group also organizes wholly-subsidized external training programs. Since 2012, it has successively cooperated with Fujian Normal University and Sichuan Agricultural University for sending a total of 54 people in three batches to participate in the re-education of undergraduate classes in the colleges. Each year, the Group's financial staff members conduct continuous education for accountants on the Fujian Provincial Accounting Information Network.

During the reporting period, percentage of trained employee [13] and the average training hours are as follows:

Percentage of trained personnel

By gender

Male	74%
Female	58%

By position

Assistant general manager and above	20%
Manager	64%
Assistant manager	121%
General staff	34%
Operation staff	74%

Average training hours

By gender	**Hour/person**
Male	3.66
Female	2.90

By position

Assistant general manager and above	2.33
Manager	2.56
Assistant manager	4.84
General staff	1.57
Operation staff	3.71

Labour standards

The Group strictly abides by the Labour Law, the Employment Promotion Law, the Labour Contract Law, the Provisions on the Prohibition of Using Child Labour, Law of the Peoples Republic of China on the Protection of Minors and relevant labour laws and regulations and strictly prohibits employment of child and forced labours. The Group's human resources department complies with relevant state laws and regulations and implements labour management procedures to review the application information of recruiters, ensuring that the age of applicants meets the requirements of laws and regulations, and conducts interviews before the employees join the company to ensure that it is not forced labour. At the time of recruitment, ID card verification will be carried out to verify whether the candidate is 16-year-old or above, applicants under 16 years of age will be rejected. If any employee is found to be under 16-year-old in the plant area, the company and the human resource department will be informed immediately. The human resource department will immediately dismiss the employees who have been identified as child labours, terminate the employment contract and send them back to their custodians. During the reporting period, the Group did not employ any child or forced labour.

13 Percentage of trained personnel refers to the percentage of the number of employees having received training as of the end of the reporting period.

Operating Practices

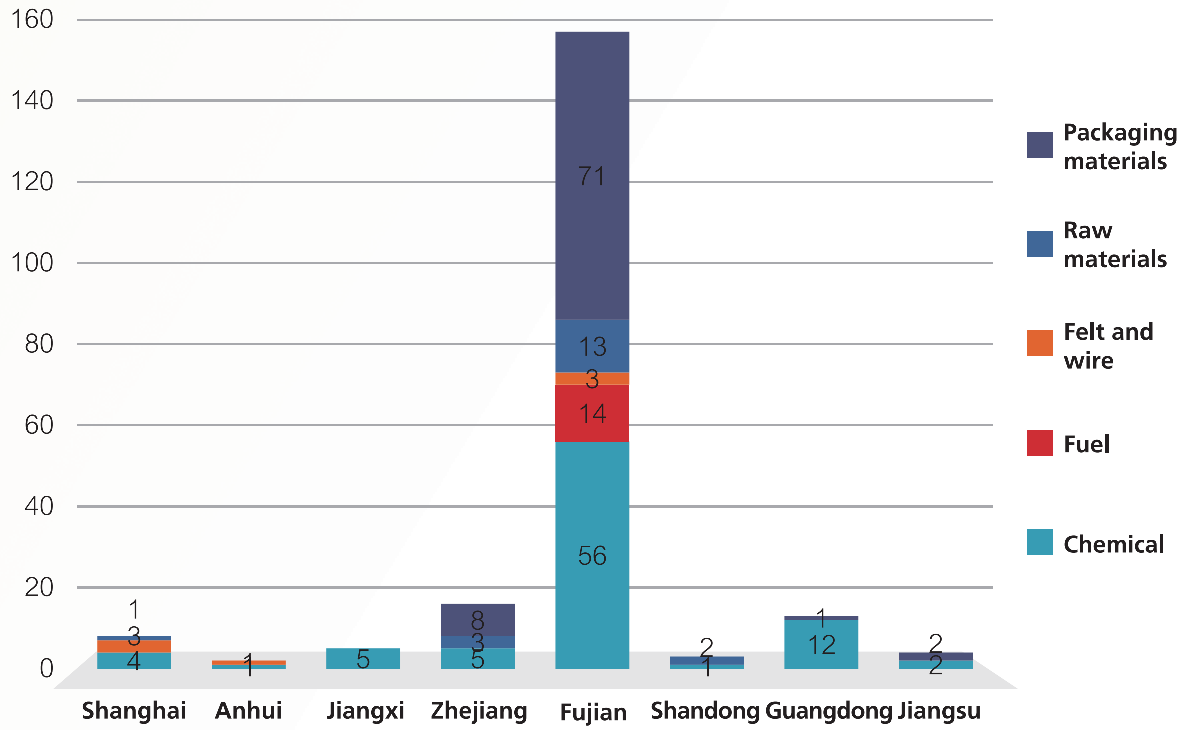
Supply chain management

The Group's suppliers can be divided into major raw material suppliers, auxiliary material packaging material suppliers and hardware equipment suppliers. Pulp is the main raw material used. In addition to wood pulp, we also use deinked pulp, recycled pulp and white corner paper to achieve both targets of cost saving and environmental protection. In addition, in order to reduce the cost of purchasing coal, we directly purchase the necessary coal from the local coal mines in Fujian Province.

The Group has formulated and implemented "Measures to select suppliers and manage relationships". The Group only chooses suppliers who can meet requirements of sustainable development. It conducts thorough inspection of potential suppliers and adopts a supplier evaluation mechanism. In order to prevent the use of non-compliant suppliers, suppliers are required to provide relevant supporting certificates during the inspection period. Qualified suppliers will be listed as eligible suppliers. Currently, all suppliers of the Group obtain ISO9001 quality system certification, ISO14001 environment system certification and FSC forest management system certification. We organize annual assessment of the suppliers to evaluate their performances in terms of product qualification rate, the rate of on-time arrival, after-sales service and timeliness, etc.

Currently, raw and auxiliary materials used in the Group's production are generally provided by two to three long-term suppliers to ensure the stability. We have specialised procurement personnel to collect market information so as to seize the opportunity for bargain purchases to reduce raw material costs. The distribution of relevant suppliers during the reporting period is as follows:

Geographical distribution of suppliers



Product responsibility

The Group believes that effective quality control initiatives are extremely important to the sustainable development of our business. We have implemented a comprehensive and effective quality control system covering all aspects of procurement and production. The Plants have achieved ISO 9001 quality control system certification.

Quality assurance process

Upon shipment arrivals, raw materials are stored in our raw material stack and being examined before the containers are unloaded. We will examine the raw materials and reject materials that fail to meet quality control standards. We will also take samples and send them to laboratories for testing to ensure the quality of waste paper.

For the production of wrapping tissue paper, samples of wood pulp, paper webs and finished paper rolls are sampled at various stages of production for various characteristics tests, including strengthness, thickness, humidity, whiteness and basis weight to ensure compliance with the specifications.

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

The Group attaches great importance to the product quality and credibility under the principle of "mutual benefits for the staff and customers". To strengthen the monitoring of product quality, the Group has developed and implemented the "Quality management system" to achieve a comprehensive quality management throughout the entire production process from procurement of raw materials to delivery of finished products. Meanwhile, we have developed the "Product quality inspection standards" to ensure that our products meet the stringent standards. In addition, online monitoring system is adopted in the production machines for certain products so that unqualified products will be automatically identified. The products produced by machines will also be inspected through sampling to ensure that the products purchased by the customers are in good quality. All unqualified products will not be placed in the inventory for sale. All defective products will be recalled, and the quality control department will conduct investigation into and analysis of the products in strict compliance with relevant laws and regulations such as the Measures for the Administration of the Recall of Defective Consumer Goods, the Product Quality Law and the Protection of Consumer Rights and Interests Law of the People's Republic of China, and set up practicable preventive and corrective measures.

In the event of receiving any complaints related to product quality, the quality control department will initiate a standard inspection and evaluation process to determine the validity of the complaint and report the conclusions to the relevant production team. We will exchange the products that we have identified as defective for the customers. During the reporting period, we have not encountered any significant return of goods and have not received any major complaints related to product quality.

For product advertising and labeling policies, the Group has legal officers responsible for providing legal advice and supervision. In case there is any inaccurate information in advertisement or labeling, the advertisement which contain content inconsistent with the facts will be terminated immediately and product labels of such nature will be replaced. The Group has also established a customer complaint hotline, and whenever the Company should take the responsibility, a salesperson will go to the site to check the products that the customers have complained about and find out the causes of the problems.

Intellectual property, consumer information and privacy protection

The Group is committed to maintaining and safeguarding our intellectual property rights in China and has registered a number of trademarks and patents in accordance with the relevant laws and regulations, such as the Patent Law of the People's Republic of China, the Law of Intellectual Property Rights of the People's Republic of China, the Tort Law of the People's Republic of China and the Agreement on Trade-Related Aspects of Intellectual Property Rights. In addition, we have implemented confidential arrangements to protect the relevant expertise, including the confidential and non-competitive commitments by our technical and management personnel to ensure that the relevant expertise will not leak to our competitors. On the other hand, we have established a clear scope and the rights to access the data about the customers, and strictly abide by the laws and regulations on protection of customer information and privacy policy. Customer data are stored in the archive room and kept by special personnel.

Anti-corruption

The Group has always adhered to the highest ethical standards and strictly abide by the relevant local laws and regulations on anti-corruption, including the Anti-Money Laundering Law of the People's Republic of China, Article 274 of the Criminal Law of the country on the Extortion and Blackmail, its Interim Provisions on the Prohibition of Commercial Bribery as well as the Prevention of Bribery Ordinance. Besides, personnel of procuratorate are invited to the Company to conduct relevant educational seminars on integrity and occupational ethics. During the reporting period, the Group did not have any relevant non-compliance issues.

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

Community

Social contribution

The Group is committed to maintaining long-term, sustainable development of both the business operations and the communities where its businesses are located. Mr. Ke Wentuo, Chairman of the Board of Directors, is currently the Honorary Vice President of the Jinjiang Charity Federation and has established the Youlanfa Charitable Foundation. Over the past few years, he has made countless donations and has continued to provide funds for a number of community welfare activities in his own name. The Group organises activities after school and summer holiday camps for employees' children so that there are specialists to take care of the children outsides school which enable employees to concentrate on their work. In addition, we also raise funds from the staff to tide employees who are facing difficulties. Looking ahead, the Group will continue to actively give support to the charitable activities jointly organized by the local government and schools for the community.

Corporate Governance Code

Our Company has adopted the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. For the year ended 31 December 2017 (the "Review Period"), our Directors consider that our Company has complied with all the code provisions as set out in the CG Code, except for a deviation from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders of the Company (the "Shareholders"). Due to other pre-arranged business commitments, Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the annual general meeting of the Company held on 25 May 2017 and the extraordinary general meeting of the Company held on 15 June 2017.

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

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

Model Code for Securities Transactions

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

Board of Directors

(i) Board Composition

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

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

Executive directors
Mr. Ke Wentuo *(Chairman)*
Mr. Ke Jixiong *(Chief Executive Officer)*
Mr. Cao Xu
Mr. Zhang Guoduan

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

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

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

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

(ii) Board Functions and Duties

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

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

(iii) Board Meetings

During the Review Period, there were nine board meetings held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2016 and the interim results for the six months ended 30 June 2017.

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

(iv) Attendance Record

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

	Attendance	
	board meetings	**general meetings**
Executive directors		
Mr. Ke Wentuo (Chairman)	9/9	2/2
Mr. Ke Jixiong (Chief Executive Officer)	9/9	2/2
Mr. Cao Xu	9/9	0/2
Mr. Zhang Guoduan	9/9	0/2
Independent non-executive directors		
Prof. Zhang Daopei	5/9	0/2
Prof. Chen Lihong	5/9	0/2
Mr. Chow Kwok Wai	4/9	2/2

(v) Independent Non-executive Directors

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

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

(vi) Appointment and Re-election of Directors

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

Mr. Ke Jixiong, Mr. Zhang Guoduan and Prof. Zhang Daopei will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("2018 AGM") and, are eligible to offer themselves for re-election.

(vii) Terms of appointment of Directors

Each of the executive Directors and each of the independent non-executive Directors, except Prof. Chen Lihong, has entered into a service contract with the Company for a term of three years commencing from 30 April 2016, renewable upon expiry in both cases, subject to compliance of the Listing Rules and the Articles. Prof. Chen Lihong has entered into a service contract with the Company on 11 March 2016 for a term of three years.

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

(viii) Directors' Remuneration

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

(ix) Directors' Training

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

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

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

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

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

Board Diversity Policy

Pursuant to the code provisions of the CG Code relating to board diversity, the Board approved a board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Audit Committee

Our Company has established an audit committee on 30 April 2010 with revised written terms of reference based upon the provisions and recommended practices of the CG Code adopted on 27 January 2016. The primary responsibilities of our audit committee are to, among other things, review and supervise financial reporting processes, risk management and internal control systems of the Group. As at 31 December 2017, our audit committee comprised Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of our audit committee.

During the Review Period, the audit committee had held two meetings and subsequently held a meeting on 22 March 2018. The members of the audit committee reviewed and discussed with the external auditors of the Company the Group's audited financial statements for the years ended 31 December 2016 and 2017 and the unaudited interim financial statements for the six months ended 30 June 2017. They were of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

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

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

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

Auditor's Remuneration

The total fee paid/payable to the external auditor of our Group, RSM Hong Kong, was approximately RMB3.0 million and RMB0.3 million for the audit services and non-auditing services respectively for the year ended 31 December 2017. Non-auditing services mainly included review services. The audit committee is of the view that the auditors' independence is not affected by the services rendered.

Company Secretary

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

Directors' Responsibility on the Financial Statements

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

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

Risk Management and Internal Control

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

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

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

For the year ended 31 December 2017, our Board considered that the risk management and internal control systems of our Group were adequate and effective and our Company had complied with the code provisions on risk management and internal control as set out in the CG Code during the Review Period.

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the CG Code. As at 31 December 2017, the nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr. Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee.

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

Before a prospective director's name is formally proposed, the opinions of the existing Directors (including the independent non-executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

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

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

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

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the CG Code. As at 31 December 2017, our remuneration committee comprised Mr. Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihong. Prof. Chen Lihong is the chairman of the remuneration committee.

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

Emolument Policies

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

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

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

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

Meeting with Independent Non-executive Directors

During the Review Period, the Chairman of the Company held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 14 March 2017 to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views at the Board meetings without restrictions.

Corporate Governance Functions

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

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

Communication with Shareholders

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

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

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

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

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

Shareholders' Rights

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

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

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary at the Company's office in Hong Kong at Unit 1601, 16th Floor, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong (and from 24 March 2018, at the Company's new office at 7th Floor, Hip Shing Hong Centre, 55 Des Voeux Road Central, Central, Hong Kong), to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Shareholders' Enquiries

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

Constitutional Documents

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

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries (hereinafter collectively referred to as our "Group") for the year ended 31 December 2017.

Corporate Reorganisation

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

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 60 of this report.

The Directors does not recommend declaration and payment of any final dividend for the year ended 31 December 2017 (For the year ended 31 December 2016: Nil).

No interim dividend was declared in current year (For the six months ended 30 June 2016: Nil).

Reserves

Movements in reserves of the Group during the year ended 31 December 2017 are set out in the consolidated statement of changes in equity on page 63 of this report.

As at 31 December 2017, the reserves of our Group available for distribution to Shareholders amounted to RMB2,896.2 million (As at 31 December 2016: RMB2,011.0 million).

Property, Plant and Equipment

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

Share Capital

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

Directors

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

Executive directors

Mr. Ke Wentuo (柯文托) (Chairman)
Mr. Ke Jixiong (柯吉熊) (Chief Executive Officer)
Mr. Cao Xu (曹旭)
Mr. Zhang Guoduan (張國端)

Independent non-executive directors

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

Biographical details of the Directors during the year are set out in the section headed "Directors and senior management" on pages 18 to 21 of this report.

Financial Summary

A financial summary of the Group for the last five years are set out on page 124 of this report.

Borrowings

Details of bank borrowings, convertible bonds and unsecured notes of the Group as at 31 December 2017 are set out in notes 27, 28 and 29 to the consolidated financial statements, respectively.

Share Option Scheme

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

(1) The purpose of the Scheme

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

(2) Who may join

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

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

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

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

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

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

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

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

(3) Maximum number of Shares

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

(4) Maximum entitlement of each participant

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

(5) Offer period

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

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

(6) Minimum holding period, vesting and performance target

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

(7) Amount payable for Options

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

(8) Subscription Price

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

(a) the nominal value of a Share;

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

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

(9) Life of Share Option Scheme

Subject to the terms of this Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional (i.e. 27 May 2010), after which no further options will be granted or offered but the provisions of the Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme. As of date of this report, the remaining life of the Scheme was about 2 years and 3 months.

As at 31 December 2017, no Options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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

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

As at 31 December 2017, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Ke Wentuo	L[1]	Interest in controlled corporation and interest of spouse[2]	694,237,500	55.82%
	S[1]	Interest in controlled corporation[3]	165,000,000	13.27%
Mr. Ke Jixiong	L[1]	Interest in controlled corporation[4]	41,930,000	3.37%

Notes

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

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

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

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

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

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

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2017, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Smart Port	L[1]	Beneficial owner[2]	665,560,500	53.51%
	S[1]	Beneficial owner[2]	165,000,000	13.27%
Ms. Cai Lishuang	L[1]	Interest in controlled corporation and interest of spouse[3]	694,237,500	55.82%
	S[1]	Interest in controlled corporation and interest of spouse[3]	165,000,000	13.27%
Cathay Special Paper Limited	L[1]	Beneficial owner[4]	100,147,500	8.05%
Ms. Ke Jinzhen	L[1]	Beneficial owner[5]	83,470,373	6.71%
Giantwish International Limited ("Giantwish")	L[1]	Interest in controlled corporation[5]	83,470,373	6.71%

Notes

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

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

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

4: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

5: Ms. Ke Jinzhen is deemed to be interest in the Shares held by Giantwish by virtue of Giantwish being wholly owned by Ms. Ke Jinzhen, a director of a non-wholly owned subsidiary (i.e. Xin Wing Enterprises Limited, a limited liability company incorporated in the British Virgin Islands) of the Company and the daughter of Mr. Ke Wentuo.

Except as disclosed above, as at 31 December 2017, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

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

Connected Transaction

On 24 April 2017, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) entered into share purchase agreements with Ms. Ke Jinzhen ("Ms. Ke", the daughter of Mr. Ke Wentuo, the Chairman and executive Director of the Company and the sister of Mr. Ke Jixiong, an executive Director and the chief executive officer of the Company, and thus, a connected person of the Company) and Cathay Capital Holdings III. L.P. ("Cathay Fund") for the acquisition of 39.0% and 20.0% equity interest in Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries (together with Xin Wing, the "Xin Wing Group") from each of Ms. Ke and Cathay Fund for the consideration of US$151,437,000 and US$76,060,000 respectively. The consideration paid to Ms. Ke was settled partly by cash in the sum of US$128,721,450, and the rest by way of the issue of 76,793,373 new Shares, while the consideration payable to Cathay Fund will be settled by way of cash pursuant to the terms of the respective share purchase agreement. The acquisitions, on an aggregated basis, constituted a major and connected transaction of the Company under the Listing Rules.

The acquisitions were approved by the independent shareholders at the extraordinary general meeting held on 15 June 2017. On 31 August 2017, the Group completed the acquisition of 39.0% of equity interest in Xin Wing from Ms. Ke and Xin Wing became a non-wholly owned subsidiary of the Group and its results, assets and liabilities will be consolidated into the accounts of the Group.

As at the date of this report, the acquisitions of 20.0% equity interest in Xin Wing from Cathay Fund have not been completed. The Company will make further announcement(s) to provide updates on the completion of the acquisitions of 20.0% from Cathay Fund as and when appropriate.

For further details of the acquisitions, please refer to the announcements of the Company dated 26 July 2016, 10 August 2016, 21 September 2016, 24 April 2017, 15 June 2017, 31 July 2017 and 31 August 2017 and the circular of the Company dated 25 May 2017.

Save as disclosed above, a summary of the related party transactions made during the year ended 31 December 2017 is disclosed in note 35 to the consolidated financial statements and these related party transactions did not constitute connected and/or continuing connected transactions as defined under the Listing Rules. To the extent that the Group's related party transactions constituted connected transactions as defined in the Listing Rules, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year ended 31 December 2017.

Transactions, Arrangement or Contracts of Significance

Save as disclosed in the section headed "Investment in Wall Paper Business" in Business Review and Outlook, the section headed "Connected Transaction" as above and note 35 to the consolidated financial statements, no transaction, arrangement or contract of significance in which a Director or an entity connected with a Director is or was materially interested, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

Directors' Interests in Competing Business

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

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 4.1% (2016: 5.6%) and 19.4% (2016: 25.0%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 45.5% (2016: 57.5%) and 70.1% (2016: 89.9%) of the Group's total purchases respectively.

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

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

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

Deed of Non-competition

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

Pre-emptive Rights

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

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

During the year ended 31 December 2017, the Company repurchased a total of 15,633,000 Shares of HK$0.10 per share from the open market at an aggregate consideration of approximately RMB42,933,000 (including transaction costs). Details of the repurchased Shares during the period are set out as follows:

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

As at 31 December 2017, 3,800,000 repurchased Shares was cancelled and the remaining balance of 11,833,000 repurchased Shares were subsequently cancelled on 9 February 2018.

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

Save as disclosed above, neither the company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

Equity-linked Agreements

Save as disclosed in the sections headed "Share Option Scheme" and the convertible bonds issued by the Company as disclosed in the annual report, as at the end of and during the year ended 31 December 2017, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

Permitted Indemnity Provision

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

Business Review

The business review of the Group for the year ended 31 December 2017 as set out in the section headed "Business Review and Outlook" in this annual report is expressly included in this report and forms part of this directors' report.

Compliance with Laws and Regulations

During the year ended 31 December 2017 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

Business Risks and Risk Management

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

Business Risk

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

Financial Risk

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

Compliance Risk

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

Operational Risk

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

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

Employees

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

Environmental Protection

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

Events after the Reporting Period

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year), in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at their outstanding principal amount together with interest thereon at the rate of 5% per annum calculated from their date of issue to their first maturity date or if extended, to the extended maturity date.

Sufficiency of Public Float

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

Auditor

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

RSM Hong Kong has been appointed as auditor of the Company by the Shareholders at the annual general meeting on 25 May 2017 and shall hold office until the conclusion of the forthcoming annual general meeting.

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 22 March 2018

RSM Hong Kong 中瑞岳華(香港)會計師事務所

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

Opinion

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 123 which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

1. Accounting for the acquisition of subsidiaries

Refer to notes 4 and 34(a) to the consolidated financial statements on the relevant accounting policies and notes to the consolidated statement of cash flows respectively, on the acquisition of subsidiaries.

Key Audit Matter

During the year ended 31 December 2017, the Group completed the further acquisition of 39% equity interests in an associate, Xin Wing Enterprises Limited ("Xin Wing"). After this further acquisition, Xin Wing and its subsidiaries ("Xin Wing Group") became subsidiaries of the Company. Xin Wing Group is principally engaged in the manufacturing and distribution of wall paper in the People's Republic of China.

The identification and determination of the fair value of intangible assets from the acquisition of Xin Wing and the estimate of the fair value of the consideration given involves complex accounting considerations. Management engaged an independent professional valuer to assist in assessing the fair values of intangible assets and consideration given. Approximately RMB239,216,000 of intangible assets including trademarks and customers relationship, and goodwill of approximately RMB613,498,000 have been recognised on acquisition date. The intangible assets identification and the determination of fair values requires management judgement in respect of estimates of future cash flows and associated discount rates. The consideration given includes previously held interests of Xin Wing with fair value of approximately RMB1,037,740,000.

The fair values of previously held interests in Xin Wing are estimated by the management with assistance of the independent professional valuer. The appropriateness of these valuations is dependent on determination of certain key assumptions including discount rates, growth rates and profit margins that require the exercise of management judgement.

How our audit addressed the Key Audit Matter

Our procedures in relation to this matter included:

- Evaluation of the external valuer's competence, capabilities and objectivity;
- Assessing the appropriateness of the valuation methodologies applied and valuation inputs, and the integrity of the valuation models with the assistance of our internal valuation specialists;
- Assessing the completeness and appropriateness of the accounting by reviewing the key documents associated with the acquisition including the share subscription agreement, Xin Wing Group's management accounts, memorandum and articles of association of Xin Wing, the announcement and circular issued by the Company for the major and connected transaction in relation to the acquisition of equity interests in Xin Wing;
- Visiting Xin Wing Group to understand the nature of its operations and assess the condition of its assets; and
- Assessing the reasonableness of the assumptions used in the valuation models based on the past performance of Xin Wing Group, the current operating environment and our knowledge of the industry.

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Key Audit Matters (continued)

2. Goodwill and other intangible assets impairment assessment

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

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group has goodwill of approximately RMB613,498,000 and intangible assets of approximately RMB239,216,000 arising from the acquisition of subsidiaries during the year ended 31 December 2017. For the purpose of impairment testing, the goodwill and other intangible assets are allocated to cash-generating units ("CGUs"). Those CGUs which include goodwill are tested for impairment at least annually. The recoverable amount of the CGUs was based on a calculation of value in use which requires management to make assumptions about the future including forecast sales, profit margins and growth rates and to determine an appropriate market discount rate. These estimates require significant management judgement.	Our procedures in relation to this matter included: • Assessing the integrity of the value in use models; • Challenging the reasonableness of management's key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the historical accuracy of those budgets; • Assessing the appropriateness of the discount rates used with the assistance of our internal valuation specialists; • Considering the potential impact of reasonably possible downside changes in the key assumptions; and • Assessing the adequacy of the impairment disclosures in the consolidated financial statements.

Other Information

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

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

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

Responsibilities of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RSM Hong Kong
Certified Public Accountants
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017	2016
		RMB'000	RMB'000
Revenue	7	2,638,825	1,799,488
Cost of sales		(1,747,505)	(1,244,966)
Gross profit		891,320	554,522
Other income and other gains and losses	9	463,410	(65,919)
Share of profit of an associate		67,000	94,000
Selling and distribution expenses		(64,023)	(10,603)
Administrative expenses		(125,693)	(82,479)
Finance costs	10	(94,853)	(72,032)
Other expenses		(56,190)	(30,241)
Profit before tax	11	1,080,971	387,248
Income tax expense	12	(90,848)	(76,615)
Profit and total comprehensive income for the year		990,123	310,633
Attributable to:			
Owners of the Company		961,981	310,633
Non-controlling interests		28,142	—
		990,123	310,633
		RMB	RMB
Earnings per share	16		
Basic		0.799	0.262
Diluted		0.775	0.262

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,807,588**	2,296,248
Prepaid lease payments	18	**529,603**	325,504
Goodwill	19	**613,498**	—
Intangible assets	20	**230,292**	—
Deposits paid for acquisition of property, plant and equipment		**206,604**	110,143
Deposits paid for acquisition of prepaid lease payments		**49,966**	39,855
Deposit paid for acquisition of non-controlling interests		**33,150**	—
Other prepayments	24	**106,439**	—
Investment in an associate	21	**—**	627,000
Derivative financial assets		**—**	7,969
		4,577,140	3,406,719
CURRENT ASSETS			
Inventories	22	**117,274**	74,662
Trade and other receivables	23	**1,754,689**	740,072
Prepaid lease payments	18	**12,865**	8,229
Bank balances and cash	25	**846,343**	465,179
		2,731,171	1,288,142
CURRENT LIABILITIES			
Trade and other payables	26	**465,525**	248,629
Income tax payables		**63,285**	19,231
Bank borrowings	27	**660,140**	519,631
Convertible bonds	28	**262,127**	—
Derivative component of convertible bonds	28	**12,880**	—
Derivative financial liabilities		**4,307**	—
		1,468,264	787,491
NET CURRENT ASSETS		**1,262,907**	500,651
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,840,047**	3,907,370

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings	27	**789,790**	1,161,467
Unsecured notes	29	**433,580**	—
Deferred consideration		**375,907**	—
Deferred taxation	30	**67,597**	24,500
		1,666,874	1,185,967
NET ASSETS		**4,173,173**	2,721,403
CAPITAL AND RESERVES			
Share capital	31	**108,397**	102,501
Reserves	32	**3,683,795**	2,618,902
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**3,792,192**	2,721,403
Non-controlling interests		**380,981**	—
TOTAL EQUITY		**4,173,173**	2,721,403

The consolidated financial statements on pages 60 to 123 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on its behalf by:

Mr. Ke Wentuo

Mr. Ke Jixiong

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	102,501	44,016	534,475	1,736,120	2,417,112	—	2,417,112
Profit and total comprehensive income for the year	—	—	—	310,633	310,633	—	310,633
Share repurchased (Note 31(a))	—	—	(6,342)	—	(6,342)	—	(6,342)
Appropriation	—	—	35,742	(35,742)	—	—	—
At 31 December 2016 and 1 January 2017	102,501	44,016	563,875	2,011,011	2,721,403	—	2,721,403
Profit and total comprehensive income for the year	—	—	—	**961,981**	**961,981**	**28,142**	**990,123**
Share repurchased (Note 31(a))	—	—	**(42,933)**	—	**(42,933)**	—	**(42,933)**
Share cancelled (Note 31(a))	**(662)**	**(12,313)**	**12,975**	—	—	—	—
Issue of new shares on acquisition of subsidiaries (Note 31(b))	**6,558**	**145,183**	—	—	**151,741**	—	**151,741**
Acquisition of subsidiaries (Note 34(a))	—	—	—	—	—	**352,839**	**352,839**
Appropriation	—	—	**76,769**	**(76,769)**	—	—	—
At 31 December 2017	**108,397**	**176,886**	**610,686**	**2,896,223**	**3,792,192**	**380,981**	**4,173,173**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,080,971**	387,248
Adjustments for:			
Finance costs		**94,853**	72,032
Depreciation of property, plant and equipment		**130,216**	108,049
Amortisation of prepaid lease payments		**12,952**	8,293
Amortisation of intangible assets		**8,924**	—
Loss on disposals/write off of property, plant and equipment		**61**	8
Interest income		**(1,761)**	(2,156)
Fair value loss (gain) on foreign currency forward contracts		**12,276**	(7,969)
Fair value gain on derivative component of convertible bonds		**(25,811)**	—
Share of profit of an associate		**(67,000)**	(94,000)
Gain on deemed disposal of an associate		**(343,740)**	—
Net foreign (gain) loss		**(100,070)**	79,364
Operating profit before working capital changes		**801,871**	550,869
Increase in trade and other receivables		**(282,146)**	(36,019)
(Increase) decrease in inventories		**(16,666)**	40,981
Increase (decrease) in trade and other payables		**122,537**	(474)
Cash generated from operations		**625,596**	555,357
Income tax paid		**(95,203)**	(66,461)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**530,393**	488,896
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		**(272,978)**	(283,301)
Payments for acquisition of prepaid lease payments		**(10,111)**	—
Payments for acquisition of subsidiaries	34(a)	**(183,636)**	—
Payments for acquisition of an associate		**—**	(533,000)
Proceeds from disposal of property, plant and equipment		**4**	—
Interest received		**1,761**	2,156
NET CASH USED IN INVESTING ACTIVITIES		**(464,960)**	(814,145)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings raised		**166,851**	1,499,465
Repayments of bank borrowings		**(469,924)**	(1,363,647)
Proceeds from issue of convertible bonds		**293,387**	—
Proceeds from issue of unsecured notes		**440,895**	—
Interest paid		**(68,993)**	(76,830)
Payments for share repurchased		**(42,933)**	(6,342)
NET CASH GENERATED FROM FINANCING ACTIVITIES		**319,283**	52,646
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**384,716**	(272,603)
Effect of foreign exchange rate changes		**(3,552)**	2,560
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**465,179**	735,222
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**846,343**	465,179

1. GENERAL

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

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

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries and an associate are set out in note 38 and 21 respectively.

2. BASIS OF PREPARATION

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

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

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of new and revised IFRSs

International Accounting Standard Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2017. Of these, the following amendments to IFRSs are relevant to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided this information in note 34(b).

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

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

IFRS 9 Financial Instruments

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

(a) Impairment

IFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would be similar with that recognised under IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

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

IFRS 15 Revenue from Contracts with Customers (continued)

(a) Timing of revenue recognition

Currently, revenue from the sale of manufactured goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

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

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

IFRS 16 Leases (continued)

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

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

As disclosed in note 36, the Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately RMB73,000 as at 31 December 2017. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Consolidation

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's entire carrying amount of that associate (including goodwill) and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

(iii) Translation on consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

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

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

Leases

The Group as lessee

Operating leases

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

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

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

Trademarks	16 years
Customers relationship	8 years

Inventories

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

Recognition and derecognition of financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either financial assets classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these financial assets are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

Trade and other receivables

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

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity instruments

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

Borrowings

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

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

Convertible bonds

Convertible loans which entitle the holder to convert the bonds into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

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

Trade and other payables

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

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

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

Revenue recognition

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

Borrowing costs

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

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

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

Government grants

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

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

Impairment of financial assets

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and contingent liabilities

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

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

Events after the reporting period

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year. As at 31 December 2017, the carrying amount of property, plant and equipment is approximately RMB2,807,588,000 (2016: RMB2,296,248,000).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill

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

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is approximately RMB1,620,046,000 (2016: RMB730,241,000). There is no allowance for doubtful debts as at 31 December 2017 and 2016.

6 FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets:		
Derivative financial assets	—	7,969
Loans and receivables (including cash and cash equivalents)	2,466,389	1,195,420
Financial liabilities:		
Derivative financial liabilities	4,307	—
Derivative component of convertible bonds	12,880	—
Financial liabilities at amortised cost	2,987,069	1,929,727

Financial risk management objectives and policies

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

6 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Currency risk

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

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

	Assets		Liabilities	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar ("HK$")	**76,746**	30,716	**151,204**	90,361
United States Dollar ("US$")	**60,477**	16,883	**2,128,220**	1,249,177

Sensitivity analysis

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

The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% (2016: 10%) is the sensitivity rate used for management's assessment of the reasonably possible change in foreign exchange rates as the economy become more volatile. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items. A positive number below indicates an increase in post-tax profit where RMB strengthens 10% (2016: 10%) against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 10% (2016: 10%) weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

	HK$		US$	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**7,446**	5,964	**206,774**	123,229

6 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The credit risk on the Group's bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is solely in the People's Republic of China (the "PRC"), as at 31 December 2017 and 2016.

The Group has concentration of credit risk as 14% (2016: 26%) of the total trade receivables was due from the Group's five largest customers in the paper industry in the PRC as at 31 December 2017. The management is of the view that these trade debtors of the Group have good trade records without default history and consider that the trade receivables from these five customers are recoverable. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2017, the Group had available unutilised banking facilities of approximately RMB1,443,300,000 (2016: RMB1,098,839,000).

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

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

6 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2017						
Trade and other payables		465,525	—	—	465,525	465,525
Bank borrowings						
– fixed rate	4.35	199,882	—	—	199,882	197,000
– variable rate	4.13	195,753	378,391	757,639	1,331,783	1,252,930
Convertible bonds	30.53	317,071	—	—	317,071	262,127
Unsecured notes	12.40	26,879	515,879	—	542,758	433,580
Deferred consideration	4.90	—	394,948	—	394,948	375,907
Derivative financial instruments	—	2,154	2,153	—	4,307	4,307
		1,207,264	1,291,371	757,639	3,256,274	2,991,376
At 31 December 2016						
Trade and other payables		248,629	—	—	248,629	248,629
Bank borrowings						
– fixed rate	5.97	113,019	—	—	113,019	110,860
– variable rate	3.52	458,510	396,718	833,727	1,688,955	1,570,238
		820,158	396,718	833,727	2,050,603	1,929,727

6 FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Interest rate risk

The Group's fair value interest rate risk relates primarily to bank borrowings, convertible bonds, unsecured notes and deferred consideration. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see note 27 for details of these borrowings).

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk which relates primarily to variable-rate bank balances and bank borrowings (see notes 25 and 27 for details of these balances). The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

For the bank balances, if the interest rates for benchmark saving rate had been increased/decreased by 20 (2016: 20) basis points and other variables were held constant, as the economy become more volatile and the Group's post-tax profit for the year ended would increase/decrease by approximately RMB1,300,000 (2016: RMB676,000) for the year ended 31 December 2017.

For the bank borrowings, if interest rates had been increased/decreased by 75 (2016: 75) basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB9,314,000 (2016: RMB11,435,000) for the year ended 31 December 2017.

6 FINANCIAL INSTRUMENTS (continued)

Fair value

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

Fair value estimation

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

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

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

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

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

As at 31 December 2017, derivate financial liabilities of the Group under recurring fair value measurement were foreign currency forward contracts amounting to approximately RMB4,307,000 (2016: derivate financial assets of RMB7,969,000). These foreign currency forward contacts are measured at fair value on Level 2 fair value measurement. The valuation technique used in this fair value measurements is discounted cash flows and the inputs are forward exchange rate, contract forward rates and discount rates.

7. REVENUE

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

	2017	2016
	RMB'000	RMB'000
Revenue from the sales of:		
Wrapping tissue paper	**1,684,849**	1,347,405
Copy paper	**217,371**	166,085
Wall paper products	**535,290**	131,652
Other products	**201,315**	154,346
	2,638,825	1,799,488

8. SEGMENT INFORMATION

(a) Products within each operating segment

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

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

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

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wrapping tissue paper	**1,684,849**	1,347,405	**549,221**	444,140
Copy paper	**217,371**	166,085	**63,878**	52,979
Wall paper products	**535,290**	131,652	**250,752**	35,376
Other products	**201,315**	154,346	**27,469**	22,027
	2,638,825	1,799,488	**891,320**	554,522
Other income and other gains and losses			**463,410**	(65,919)
Share of profit of an associate			**67,000**	94,000
Selling and distribution expenses			**(64,023)**	(10,603)
Administrative expenses			**(125,693)**	(82,479)
Finance costs			**(94,853)**	(72,032)
Other expenses			**(56,190)**	(30,241)
Profit before tax			**1,080,971**	387,248

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

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

8. SEGMENT INFORMATION (continued)

(c) Segment assets

	2017 RMB'000	2016 RMB'000
Wrapping tissue paper	**729,019**	804,060
Copy paper	**115,451**	139,890
Wall paper products	**2,969,716**	826,751
Other products	**255,446**	112,426
Total segment assets	**4,069,632**	1,883,127
Unallocated		
– Property, plant and equipment	**1,012,406**	1,053,862
– Prepaid lease payments	**325,439**	333,733
– Deposit paid for acquisition of non-controlling interests	**33,150**	—
– Deposits paid for acquisition of property, plant and equipment	**183,594**	110,143
– Deposits paid for acquisition of prepaid lease payments	**49,966**	39,855
– Derivative financial assets	—	7,969
– Inventories	**83,138**	60,921
– Trade and other receivables	**1,025,705**	740,072
– Bank balances and cash	**525,281**	465,179
Consolidated assets	**7,308,311**	4,694,861

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

(d) Segment liabilities

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

8. SEGMENT INFORMATION (continued)

(e) Other segment information

	Wrapping tissue paper RMB'000	Copy paper RMB'000	Wall Paper products RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Year ended 31 December 2017						
Additions to property, plant and equipment	**24,274**	**24,395**	**53,892**	**4,874**	**60,208**	**167,643**
Acquisition of subsidiaries						
– Property, plant and equipment	—	—	**473,978**	—	—	**473,978**
– Prepaid lease payments	—	—	**221,687**	—	—	**221,687**
– Intangible assets	—	—	**239,216**	—	—	**239,216**
Goodwill arising from acquisition of subsidiaries	—	—	**613,498**	—	—	**613,498**
Depreciation and amortisation	**47,632**	**7,389**	**32,777**	**10,652**	**53,642**	**152,092**
Loss on disposals/write off of property, plant and equipment	—	—	—	—	**61**	**61**
Year ended 31 December 2016						
Additions to property, plant and equipment	81,141	26,663	25,214	3,521	128,855	265,394
Depreciation and amortisation	36,022	5,336	10,135	5,821	59,028	116,342
Loss on disposals/write off of property, plant and equipment	—	—	—	—	8	8

(f) Geographical information

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

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

(g) Information about major customers

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

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	2017 RMB'000	2016 RMB'000
Bank interest income	**1,761**	2,156
Loss on disposals/write off of property, plant and equipment	**(61)**	(8)
Net foreign exchange gain (loss)	**91,458**	(69,511)
Gain on deemed disposal of an associate	**343,740**	—
Government grants (Note)	**205**	1,295
Fair value gain on derivative component of convertible bonds	**25,811**	—
Others	**496**	149
	463,410	(65,919)

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC for developing innovative production technology and maintaining a good reputation in the business community in 2016 and 2017. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

10. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest expenses on:		
– Bank borrowings	**66,468**	77,429
– Convertible bonds	**12,952**	—
– Unsecured notes	**11,032**	—
Transaction costs of derivative component of convertible bonds	**1,354**	—
Imputed interest expenses on deferred consideration	**5,440**	—
Less: Amounts capitalised	**(2,393)**	(5,397)
	94,853	72,032

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.3% per annum (2016: 6.2%).

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2017 RMB'000	2016 RMB'000
Employee benefits expenses (including directors):		
Salaries, wages and other benefits	75,229	65,279
Retirement benefit scheme contributions	5,924	3,240
	81,153	68,519
Depreciation of property, plant and equipment	130,216	108,049
Amortisation of prepaid lease payments	12,952	8,293
Amortisation of intangible assets	8,924	—
Total depreciation and amortisation expenses	152,092	116,342
Auditors' remuneration	3,324	2,998
Research and development cost recognised as expenses (included in other expenses)	56,190	30,241
Cost of inventories recognised as expenses	1,747,505	1,244,966

12. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
Charge for the year	86,036	69,615
Deferred tax (Note 30)		
Charge for the year	4,812	7,000
	90,848	76,615

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

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

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

12. INCOME TAX EXPENSE (continued)

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

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

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

	2017	2016
	RMB'000	RMB'000
Profit before tax	**1,080,971**	387,248
Tax at the PRC statutory EIT rate of 25%	**270,243**	96,812
Effect of tax exemptions and tax concession	**(98,260)**	(37,540)
Deferred tax on PRC dividend withholding tax	**7,000**	7,000
Tax effect of income that is not taxable	**(85,935)**	—
Tax effect of expenses that are not deductible	**14,108**	32,728
Tax effect of share of profit of an associate	**(16,750)**	(23,500)
Tax effect of utilisation of tax losses not previously recognised	**(971)**	—
Others	**1,413**	1,115
Income tax expense	**90,848**	76,615

13. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

(a) Directors' emoluments

The emoluments paid or payable to each of the 7 (2016: 8) directors and the Chief Executive Officer were as follows:

For the year ended 31 December 2017

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

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

(a) Directors' emoluments (continued)

For the year ended 31 December 2016

	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihui (Resigned on 11 March 2016) RMB'000	Prof. Chen Lihong (Appointed on 11 March 2016) RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	120	—	120	155	395
Other emoluments									
Salaries and other benefits	1,414	1,145	167	167	—	—	—	—	2,893
Contribution to retirement benefit scheme	16	16	12	16	—	—	—	—	60
Performance related incentive payments									
Share based payment	—	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—	—
	1,430	1,161	179	183	120	—	120	155	3,348
Pension paid to directors	—	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors' and chief executive	—	—	—	—	—	—	—	—	—
	1,430	1,161	179	183	120	—	120	155	3,348

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

For the years ended 31 December 2017 and 2016, neither the Chief Executive Officer nor any of the directors waived or agreed to waive any emoluments except Prof. Chen Lihong agreed to waive his emoluments for the year ended 31 December 2017.

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

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

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

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

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

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, 3 (2016: 3) were directors and the Chief Executive Officer whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining 2 (2016: 2) individuals were as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	1,459	1,245
Retirement benefit scheme contributions	31	24
	1,490	1,269

Their emoluments were within the following bands:

	2017 Number of individuals	2016 Number of individuals
Nil to HK$1,000,000 (equivalent to RMBNil to RMB895,000)	1	1
HK$1,000,001 to HK$1,500,000 (equivalent to RMB895,001 to RMB1,342,500)	1	1

No emoluments have been paid to any of the directors or the highest paid individuals as an inducements to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2017 and 2016.

15. DIVIDENDS

On 22 March 2018, the Board does not recommend declaration and payment of any final dividend in respect of the year ended 31 December 2017 (2016: Proposed final dividend of Nil).

16. EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share	961,981	310,633
Finance cost saving on conversion of convertible bonds outstanding	12,952	—
Fair value gain on derivative component of convertible bonds reversed	(25,811)	—
Exchange gain on liability and derivative components of convertible bonds reversed	(5,521)	—
Earnings for the purpose of calculating diluted earnings per share	943,601	310,633

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,203,994,648	1,186,072,075
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	13,168,899	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,217,163,547	1,186,072,075

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2016	1,110,734	1,256,700	13,719	7,976	195,918	2,585,047
Additions	—	51	98	142	265,103	265,394
Transfer	54,631	237,399	86	—	(292,116)	—
Disposals/write off	—	—	(82)	—	—	(82)
At 31 December 2016 and 1 January 2017	**1,165,365**	**1,494,150**	**13,821**	**8,118**	**168,905**	**2,850,359**
Additions	**604**	**53,433**	**53**	**1,762**	**111,791**	**167,643**
Acquisition of subsidiaries (Note 34(a))	**266,901**	**205,336**	**840**	**573**	**328**	**473,978**
Transfer	**90,008**	**157,505**	—	**53**	**(247,566)**	—
Disposals/write off	—	**(332)**	**(505)**	**(170)**	—	**(1,007)**
At 31 December 2017	**1,522,878**	**1,910,092**	**14,209**	**10,336**	**33,458**	**3,490,973**
Accumulated depreciation						
At 1 January 2016	(148,044)	(283,184)	(10,339)	(4,569)	—	(446,136)
Provided for the year	(33,940)	(72,073)	(1,275)	(761)	—	(108,049)
Disposals/write off	—	—	74	—	—	74
At 31 December 2016 and 1 January 2017	**(181,984)**	**(355,257)**	**(11,540)**	**(5,330)**	—	**(554,111)**
Provided for the year	**(40,187)**	**(88,279)**	**(1,113)**	**(637)**	—	**(130,216)**
Disposals/write off	—	**299**	**490**	**153**	—	**942**
At 31 December 2017	**(222,171)**	**(443,237)**	**(12,163)**	**(5,814)**	—	**(683,385)**
Carrying amount						
At 31 December 2017	**1,300,707**	**1,466,855**	**2,046**	**4,522**	**33,458**	**2,807,588**
At 31 December 2016	983,381	1,138,893	2,281	2,788	168,905	2,296,248

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

The Group has pledged several buildings and plant and machineries with a carrying amount of approximately RMB346,358,000 (2016: RMB181,103,000) to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	**542,468**	333,733
Analysed for reporting purpose as:		
Current assets	**12,865**	8,229
Non-current assets	**529,603**	325,504
	542,468	333,733

The Group's prepaid lease payments represent the payments for land use rights situated in the PRC. The remaining unexpired lease term of the leasehold lands is in range of 33 to 46 years (2016: 34 to 45 years) for the year ended 31 December 2017.

The Group has pledged certain of its leasehold lands in the PRC with a carrying amount of approximately RMB113,790,000 (2016: RMB56,838,000) to secure banking facilities granted to the Group.

19. GOODWILL

	RMB'000
Cost	
At 1 January 2016, 31 December 2016 and 1 January 2017	—
Arising on acquisition of subsidiaries (Note 34(a))	**613,498**
At 31 December 2017	**613,498**
Accumulated impairment	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	—
Carrying amount	
At 31 December 2017	**613,498**
At 31 December 2016	—

19. GOODWILL (continued)

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

	2017 RMB'000	2016 RMB'000
Wall paper products:		
Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries ("Xin Wing Group")	**613,498**	—

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

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

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

20. INTANGIBLE ASSETS

	Trademarks RMB'000	Customers relationship RMB'000	Total RMB'000
Cost			
At 1 January 2016, 31 December 2016 and 1 January 2017	—	—	—
Acquisition of subsidiaries (Note 34(a))	**50,234**	**188,982**	**239,216**
At 31 December 2017	**50,234**	**188,982**	**239,216**
Accumulated amortisation			
At 1 January 2016, 31 December 2016 and 1 January 2017	—	—	—
Amortisation for the year	**(1,048)**	**(7,876)**	**(8,924)**
At 31 December 2017	**(1,048)**	**(7,876)**	**(8,924)**
Carrying amount			
At 31 December 2017	**49,186**	**181,106**	**230,292**
At 31 December 2016	—	—	—

Intangible assets of trademarks and customer relationship were recognised in the consolidated financial statements of the Group from the acquisition of subsidiaries during the year ended 31 December 2017. The initial amounts were based on a valuation report issued by an independent valuer representing the present value of the future residue cash flow attributable to the intangible assets.

21. INVESTMENT IN AN ASSOCIATE

	2017 RMB'000	2016 RMB'000
Unlisted investment:		
Cost of investment in an associate, includes goodwill	—	533,000
Share of post-acquisition profits and other comprehensive income	—	94,000
	—	627,000

Details of the Group's associate at 31 December 2016 are as follows:

Name	Place of incorporation	Principal place of business	Paid-up issued share capital	Percentage of ownership interest/ voting power	Principal activities
Xin Wing	British Virgin Islands	PRC	50,000 ordinary shares of US$1 each	41%	Manufacturing and distribution of wall paper in the PRC

On 5 February 2016, Xi Yuan Paper Limited ("Xi Yuan BVI") completed its acquisition of 41.0% equity interests in Xin Wing which were originally wholly owned by Ms. Ke Jinzhen (the daughter of Mr. Ke, the Chairman and executive director of the Company, a connected person of the Company) at a consideration of RMB533,000,000.

On 31 August 2017, Xi Yuan BVI completed further acquisition of 39.0% equity interests in Xin Wing from Ms. Ke Jinzhen. Since then Xin Wing became a non-wholly owned subsidiary of the Group and its results, assets and liabilities are consolidated into the financial statements of the Group. For details of the acquisition, please refer to note 34(a).

21. INVESTMENT IN AN ASSOCIATE (continued)

The following table shows information of Xin Wing for the eight months ended 31 August 2017 and for the year ended 31 December 2016. The associate was accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the IFRS financial information of the associate.

	As at 31 December 2016 RMB'000
Non-current assets	923,483
Current assets	980,516
Non-current liabilities	(15,851)
Current liabilities	(385,708)
Net assets	1,502,440

	Eight months ended 31 August 2017 RMB'000	From 5 February 2016 to 31 December 2016 RMB'000
Revenue	**631,082**	800,346
Profit after tax	**163,427**	250,495
Other comprehensive income	—	742
Total comprehensive income	**163,427**	251,237
Dividend received from the associate	—	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements as below:

	As at 31 December 2016 RMB'000
Net assets of Xin Wing	1,502,440
Proportion of the Group's ownership of 41.0%	616,000
Goodwill	11,000
Carrying amount of the Group's interest in Xin Wing	627,000

22. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	95,643	60,878
Work in progress	14,235	90
Finished goods	7,396	13,694
	117,274	74,662

23. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	1,620,046	730,241
Other prepayments (Note 24)	112,952	—
Other receivables	9,059	993
Other tax recoverable	12,632	8,838
	1,754,689	740,072

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

	2017 RMB'000	2016 RMB'000
0 to 60 days	771,624	388,308
61 to 120 days	662,872	341,933
121 to 180 days	185,550	—
	1,620,046	730,241

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

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired has good repayment history and no impairment is considered necessary.

As at 31 December 2017 and 2016, no trade receivable balance was past due nor impaired. The Group does not hold any collateral over the trade balances.

As at 31 December 2017 and 2016, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

24. OTHER PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Other prepayments	219,391	—
Analysed for reporting purpose as:		
– Non-current assets	106,439	—
– Current assets (Note 23)	112,952	—
	219,391	—

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

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

25. BANK BALANCES AND CASH

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

Bank balances of the Group as at 31 December 2017 carry market interest rates of range from 0.01% to 1.95% (2016: 0.01% to 1.95%) per annum.

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

26. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**309,911**	175,641
Other payables for acquisition of plant and equipment	**11,616**	22,883
Other tax payables	**51,126**	28,896
Accrued staff costs and employee social security fund	**11,828**	7,436
Accrued electricity expenses	**7,448**	5,761
Other accrued expenses	**73,596**	8,012
	465,525	248,629

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

	2017 RMB'000	2016 RMB'000
Within 30 days	**175,935**	80,140
31 to 90 days	**133,976**	95,501
	309,911	175,641

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

Trade payables principally comprise amounts outstanding for the purchase of goods. The average credit period for purchase of goods is 30 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

27. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Carrying amount repayable:		
Within one year	660,140	519,631
More than one year, but not exceeding two years	789,790	362,270
More than two years, but not exceeding five years	—	799,197
	1,449,930	1,681,098
Less: Amounts due within one year shown under current liabilities	(660,140)	(519,631)
Amounts shown under non-current liabilities	789,790	1,161,467
Analysed as:		
Fixed-rate borrowings	197,000	110,860
Variable-rate borrowings	1,252,930	1,570,238
	1,449,930	1,681,098

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

	2017	2016
Effective interest rate:		
Fixed-rate borrowings		
RMB	4.35%	5.96%
Variable-rate borrowings		
HK$	—	HIBOR plus 1.30% to 2.6%
US$	LIBOR Plus 2.0% to 2.75%	LIBOR plus 1.75% to 2.75%
RMB	115% of Benchmark Borrowing Rate to 145% of Benchmark Borrowing Rate	110% of Benchmark Borrowing Rate to 120% of Benchmark Borrowing Rate

27. BANK BORROWINGS (continued)

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

	2017 RMB'000	2016 RMB'000
Amounts shown under current liabilities:		
Fixed-rate borrowings		
RMB	197,000	110,860
Variable-rate borrowings		
HK$	—	79,621
US$	453,140	121,450
RMB	10,000	207,700
	660,140	519,631
Amounts shown under non-current liabilities:		
Variable-rate borrowings		
HK$	—	10,740
US$	741,790	1,127,727
RMB	48,000	23,000
	789,790	1,161,467
	1,449,930	1,681,098

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

	2017 RMB'000	2016 RMB'000
Borrowings are secured by assets of the Group (Note)	173,000	102,760
Borrowings are cross-guaranteed among subsidiaries of the Company	1,276,930	1,578,338
	1,449,930	1,681,098

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

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	346,358	181,103
Land use rights, classified as prepaid lease payments	113,790	56,838
	460,148	237,941

28. CONVERTIBLE BONDS

On 20 October 2017, the Company issued unlisted, guaranteed and unsecured convertible bond with a principal amount of HK$200.0 million ("October 2017 CB"), to an independent third party.

On 13 November 2017, the Company issued unlisted, guaranteed and unsecured convertible bond with a principal amount of US$20.0 million ("November 2017 CB"), to an independent third party.

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

Convertible bonds	Issuance date	Maturity date	Conversion period	Conversion price	Coupon rate	Maximum number of ordinary shares of the Company can be converted	Principal amount as at 31 December 2017	2016
October 2017 CB	20 October 2017	20 October 2018	Any time after 6 months from the issuance date to a business day immediately before the maturity date	HK$4.4625	4.5% p.a.	44,817,927	**HK$200.0 million**	—
November 2017 CB	13 November 2017	13 November 2018	Any time after 6 months from the issuance date to a business day immediately before the maturity date	HK$4.98	4.5% p.a.	31,325,301	**US$20.0 million**	—

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

Conversion price of all the convertible bonds will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues and other dilutive events which may have impacts on the rights of the holders.

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

28. CONVERTIBLE BONDS (continued)

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

	October 2017 CB RMB'000	November 2017 CB RMB'000	Total RMB'000
Nominal value of convertible bonds issued	170,000	132,600	302,600
Transaction cost related to liability component	(4,932)	(4,281)	(9,213)
Derivative component	(29,085)	(10,290)	(39,375)
Liability component at date of issue	135,983	118,029	254,012
Interest charged	9,584	3,368	12,952
Exchange alignment	(2,764)	(2,073)	(4,837)
Liability component as at 31 December 2017	142,803	119,324	262,127
Derivative component at date of issue	29,085	10,290	39,375
Fair value gain for the year	(20,171)	(5,640)	(25,811)
Exchange alignment	(513)	(171)	(684)
Derivative component as at 31 December 2017	8,401	4,479	12,880

The interest charged for the year is calculated by applying the effective interest rate of 37.4% and 21.6% to the liability component of October 2017 CB and November 2017 CB respectively per annum since the convertible bonds were issued.

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

28. CONVERTIBLE BONDS (continued)

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

	October 2017 CB		November 2017 CB	
	31 December 2017	**Date of issue**	**31 December 2017**	**Date of issue**
Weighted average share price	HK$3.38	HK$4.40	HK$3.38	HK$3.93
Weighted average exercise price	HK$4.4625	HK$4.4625	HK$4.98	HK$4.98
Expected volatility	44%	40%	44%	40%
Expected life	0.80 year	1 year	0.87 year	1 year
Risk free rate	1.04%	0.72%	1.68%	1.54%
Expected dividend yield	0%	0%	0%	0%

Information about level 3 fair value measurements as below:

	Valuation techniques	**Significant unobservable input**	**Range**	**Effect on fair value for increase of inputs**
Derivative component embedded in convertible bonds	Binomial option pricing model	Expected volatility	40% to 44%	Increase

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

29. UNSECURED NOTES

	2017	2016
	RMB'000	RMB'000
Unsecured notes	**433,580**	—

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

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

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

30. DEFERRED TAXATION

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

	Undistributable profits of PRC subsidiaries RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2016	17,500	—	17,500
Charge to profit or loss (Note 12)	7,000	—	7,000
At 31 December 2016 and 1 January 2017	**24,500**	—	**24,500**
Acquisition of subsidiaries (Note 34(a))	—	**38,285**	**38,285**
Charge to profit or loss (Note 12)	**7,000**	**(2,188)**	**4,812**
At 31 December 2017	**31,500**	**36,097**	**67,597**

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries of the Group from 1 January 2008 onwards. As at 31 December 2017, deferred tax liability has been provided in respect of approximately RMB315,000,000 (2016: RMB245,000,000) undistributed earnings of the Group's PRC Subsidiaries. Deferred tax has not been provided in respect of the remaining temporary differences attributable to the undistributed earnings as the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

The unused tax losses available for offset against future profits of the Group are as follows, no deferred tax asset has been recognised due to the unpredictability of future profit streams:

	2017 RMB'000
Will be expired in:	
2018	**1,536**
2019	**3,944**
2020	**3,744**
2021	**976**
Unused tax losses available for offset against future profits	**10,200**

As at 31 December 2017, the aggregate amount of undistributed earnings of the Group's PRC Subsidiaries in respect of which deferred tax liability has not been provided for were approximately RMB2,325,356,000 (2016: RMB1,984,665,000).

31. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 1 January 2017	**1,186,236,339**	**118,623,634**
Share repurchased and cancelled (Note a)	**(7,471,000)**	**(747,100)**
Issue of new shares on acquisition (Note b)	**76,793,373**	**7,679,337**
At 31 December 2017	**1,255,558,712**	**125,555,871**

	2017	2016
	RMB'000	RMB'000
Presented in RMB		
Share capital	**108,397**	102,501

Notes:

(a) During the year ended 31 December 2016 and 2017, the Company repurchased its own shares through the Stock Exchange as follows:

For the year ended 31 December 2017

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

For the year ended 31 December 2016

Month of repurchases	Number of ordinary shares of HK$0.10 each	Price paid per share Highest HK$	Price paid per share Lowest HK$	Aggregate consideration paid (including expenses) RMB'000
November 2016	352,000	1.83	1.78	563
December 2016	3,319,000	2.01	1.90	5,779
	3,671,000			6,342

During the year ended 31 December 2017, 7,471,000 shares repurchased by the Company was cancelled and the remaining of 11,833,000 shares were subsequently cancelled on 9 February 2018.

31. SHARE CAPITAL (continued)

Notes: (continued)

(b) On 31 August 2017, 76,793,373 ordinary shares of par value HK$0.01 each of the Company was issued as part of the consideration in acquiring 39.0% equity interests in Xin Wing. Details of the acquisition are set out in note 34(a). The fair value of the shares issued determined using the published price available at the date of completion of the acquisition is approximately RMB151,741,000, of which approximately RMB6,558,000 was credited to share capital and the remaining balance of approximately RMB145,183,000 was credited to the share premium account.

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

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

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

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

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

The debt-to-adjusted capital ratios at 31 December 2017 and at 31 December 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Total debt	**2,145,637**	1,681,098
Less: cash and cash equivalents	**(846,343)**	(465,179)
Net debt	**1,299,294**	1,215,919
Total equity	**3,792,192**	2,721,403
Debt-to-adjusted capital ratio	**34%**	45%

The decrease in the debt-to-adjusted capital ratio during 2017 resulted primarily from increase in total equity outweighed the increase in net debt.

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

The Group receives a report from the share registrars weekly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year.

Breaches in meeting the financial covenants would permit the bank, convertible bonds holders and unsecured notes holders to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing for the years ended 31 December 2017 and 2016.

32. RESERVES

THE GROUP

	Share premium RMB'000	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Share repurchase reserve RMB'000	Statutory surplus reserve RMB'000 (Note c)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2016	44,016	257,299	67,866	—	209,310	1,736,120	2,314,611
Profit and total comprehensive income for the year	—	—	—	—	—	310,633	310,633
Share repurchased (Note 31(a))	—	—	—	(6,342)	—		(6,342)
Appropriation	—	—	—	—	35,742	(35,742)	—
At 31 December 2016 and 1 January 2017	**44,016**	**257,299**	**67,866**	**(6,342)**	**245,052**	**2,011,011**	**2,618,902**
Profit and total comprehensive income for the year	—	—	—	—	—	**961,981**	**961,981**
Share repurchased (Note 31(a))	—	—	—	**(42,933)**	—	—	**(42,933)**
Share cancelled (Note 31(a))	**(12,313)**	—	—	**12,975**	—	—	**662**
Issue of new shares on acquisition of subsidiaries (Note 31(b))	**145,183**	—	—	—	—	—	**145,183**
Appropriation	—	—	—		**76,769**	**(76,769)**	—
At 31 December 2017	**176,886**	**257,299**	**67,866**	**(36,300)**	**321,821**	**2,896,223**	**3,683,795**

THE COMPANY

	Share premium RMB'000	Capital reserve RMB'000	Share repurchase reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	44,016	5,690	—	(112,635)	(62,929)
Loss and total comprehensive expense for the year	—	—	—	(122,161)	(122,161)
Share repurchased (Note 31(a))	—	—	(6,342)	—	(6,342)
At 31 December 2016 and 1 January 2017	**44,016**	**5,690**	**(6,342)**	**(234,796)**	**(191,432)**
Profit and total comprehensive income for the year	—	—	—	**17,519**	**17,519**
Share repurchased (Note 31(a))	—	—	**(42,933)**	—	**(42,933)**
Share cancelled (Note 31(a))	**(12,313)**	—	**12,975**	—	**662**
Issue of new shares on acquisition of subsidiaries (Note 31(b))	**145,183**	—	—	—	**145,183**
At 31 December 2017	**176,886**	**5,690**	**(36,300)**	**(217,277)**	**(71,001)**

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

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

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

33. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Both the Group and the employee contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,500 (equivalent to approximately RMB1,253) (2016: HK$1,500 (equivalent to approximately RMB1,340)) to the MPF Scheme.

(b) Social security and benefits for PRC employees

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The Group is required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of approximately RMB5,924,000 (2016: RMB3,240,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2017.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Acquisition of subsidiaries

In August 2017, the Group completed the further acquisition of 39.0% equity interests of Xin Wing. The consideration for the acquisition is US$151,437,000 which includes: 1) the share consideration of US$22,715,550 which will be satisfied by the allotment and issue of 76,793,373 new shares of the Company on completion date; 2) the first consideration of US$68,146,650 which was settled in cash on completion date, and 3) the deferred consideration of US$60,574,800 which will pay within 24 months from completion date.

The fair value of the identifiable assets and liabilities of Xin Wing acquired as at the date of acquisition are as follows:

	Notes	RMB'000
Assets acquired and liabilities recognised at the date of acquisition	(i)	
Property, plant and equipment	17	473,978
Prepaid lease payments		221,687
Intangible assets	20	239,216
Inventories		25,946
Trade and other receivables		872,060
Bank balances and cash		271,584
Trade and other payables		(95,765)
Income tax payables		(53,221)
Bank borrowings		(153,000)
Deferred taxation		(38,285)
Sub total		1,764,200
Non-controlling interests		(352,839)
Goodwill	19	613,498
Total		2,024,859

		RMB'000
Satisfied by:		
Cash		455,220
Issue of new shares of the Company, at fair value	(ii)	151,740
Deferred consideration	(iii)	380,159
Fair value of previously held interests in an associate	(iv)	1,037,740
Total		2,024,859

	RMB'000
Net cash outflow arising on acquisition	
Cash consideration paid	455,220
Less: bank balances and cash acquired	(271,584)
	183,636

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(a) Acquisition of subsidiaries (continued)

Notes:

(i) The fair value of the assets acquired and liabilities recognised at the date of acquisition were determined by reference to valuations conducted by an independent external valuer using business valuation techniques. The fair value of the trade and other receivables acquired is approximately RMB872,060,000.

(ii) The fair value of the share consideration (consideration shares) is estimated with reference to the closing price of the Company's shares at the completion date.

(iii) The fair value of the deferred consideration was the present value of the consideration discounted at a rate of 4.9% which will be settled within 24 months from August 2017. The fair value of the contingent consideration arising from the profit guarantee of Xing Wing Group for the year ended 31 December 2017 was not recognised in the consolidated financial statements of the Group for the then year ended as the profit guarantee had been met.

(iv) As at the acquisition date, the fair value of 41.0% equity interests of Xin Wing held by the Group was re-measured to approximately RMB1,037,740,000 which was determined by the external valuer using business valuation techniques which involved estimation of cash inflows and outflows, growth rates in future cash flow and discount rate. Compared with its carrying amount of approximately RMB694,000,000, the gain on deemed disposal of associates of approximately RMB343,740,000 was recognised in the consolidated statement of profit or loss and other comprehensive income.

The goodwill arising on the acquisition of Xin Wing is measured as the excess of the sum of the consideration transferred over the identifiable assets acquired and the liabilities assumed at the date of acquisition. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Acquisition related costs of approximately RMB5.2 million have been charged to administrative expenses in the consolidated statement of profit or loss of the Group for the year ended 31 December 2017.

Included in the profit for the year is approximately RMB140,703,000 attributable to Xin Wing since it became subsidiaries of the Group. Revenue for the year includes approximately RMB374,639,000 generated from Xin Wing since it became subsidiaries of the Group.

Had the acquisition of Xin Wing been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2017 would have been approximately RMB3,269,907,000 and the amount of the profit for the year would have been approximately RMB1,298,742,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2017 RMB'000	Cash flows RMB'000	Exchange difference RMB'000	Interest expenses RMB'000	Net interest payable transfer to other accrued expenses RMB'000	Acquisition of subsidiaries RMB'000	31 December 2017 RMB'000
Bank borrowings (note 27)	1,681,098	(365,313)	(81,095)	66,468	(4,228)	153,000	1,449,930
Convertible bonds (note 28)	—	254,012	(4,837)	12,952	—	—	262,127
Unsecured notes (note 29)	—	440,895	(7,315)	11,032	(11,032)	—	433,580

35. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related party during the year:

	2017 RMB'000	2016 RMB'000
Acquisition of equity interest in Xin Wing (Notes 34(a) and 21)	987,119	533,000

(b) The remuneration of directors and other members of key management during the year was as follows:

	2017 RMB'000	2016 RMB'000
Short-term benefits	4,647	4,871
Post-employment benefits	106	144
	4,753	5,015

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

36. LEASE COMMITMENTS

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise during the year ended 31 December 2017 were approximately RMB361,000 (2016: RMB351,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**73**	309
In the second to fifth year inclusive	—	77
	73	386

Operating lease payments represent rentals payable by the Group's office premise in both years. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

37. CAPITAL COMMITMENTS

	2017 **RMB'000**	2016 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	**267,513**	241,409
Acquisition of 20.0% equity interest in Xin Wing	**471,128**	—

38. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2017 and 2016 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of ownership interest and voting power held by the Company		Principal activities
				2017	2016	
Xi Yuan BVI	British Virgin Islands ("BVI")	Hong Kong	1 ordinary share of US$1	100% (directly)	100% (directly)	Investment holding
Xin Wing	BVI	PRC	50,000 ordinary shares of US$1 each	80% (indirectly)	—	Investment holding
Sunwell Trading (HK) Company Limited	Hong Kong	Hong Kong	10,000,000 ordinary shares	100% (indirectly)	100% (indirectly)	Investment holding
Yi Yuan (Hong Kong) Holdings Limited	Hong Kong	Hong Kong	10,000 ordinary shares	80% (indirectly)	—	Investment holding
Huaxiang*	PRC	PRC	RMB542,334,612	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and other products in the PRC
Senry*	PRC	PRC	RMB583,128,401	80% (indirectly)	—	Manufacturing and distribution of wall paper in the PRC
Taisheng*	PRC	PRC	RMB10,000,000	80% (indirectly)	—	Manufacturing of wall paper in the PRC
Xiyuan*	PRC	PRC	HK$300,000,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and wall paper backing paper and copy paper in the PRC
Youlanfa*	PRC	PRC	RMB128,880,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of wrapping tissue paper, copy paper and other products in the PRC

* These subsidiaries are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

38. INVESTMENTS IN SUBSIDIARIES (continued)

The following table shows information on the subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	**Xin Wing Group**
Principal place of business	PRC
% of ownership interests/voting rights held by NCI	20%/20%

At 31 December 2017	**RMB'000**
Non-current assets	1,092,882
Current assets	1,072,007
Non-current liabilities	(51,097)
Current liabilities	(208,889)
Net assets	1,904,903
Accumulated NCI	380,981

Period from 1 September 2017 to 31 December 2017	**RMB'000**
Revenue	374,639
Profit and total comprehensive income	140,703
Profit allocated to NCI	28,142
Dividends paid to NCI	—

Period from 1 September 2017 to 31 December 2017	**RMB'000**
Net cash generated from operating activities	128,995
Net cash used in investing activities	(48,547)
Net cash used in financing activities	(32,097)
Net increase in cash and cash equivalents	48,351

As at 31 December 2017, the bank and cash balances of the Group' subsidiaries in the PRC denominated in RMB amounted to approximately RMB524,986,000 (2016: RMB410,242,000). The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated cash and cash equivalents and short-term bank deposits out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	215,916	215,916
Derivative financial assets	—	7,969
	215,916	223,885
CURRENT ASSETS		
Prepayments and other receivables	6,508	43
Amount due from a subsidiary	1,626,045	955,645
Bank balances and cash	134,692	50,997
	1,767,245	1,006,685
CURRENT LIABILITIES		
Other payables and accrued expenses	37,941	6,812
Bank borrowings	453,140	184,961
Convertible bonds	262,127	—
Derivative component of convertible bonds	12,880	—
Derivative financial liabilities	4,307	—
	770,395	191,773
NET CURRENT ASSETS	996,850	814,912
TOTAL ASSETS LESS CURRENT LIABILITIES	1,212,766	1,038,797
NON-CURRENT LIABILITIES		
Bank borrowings	741,790	1,127,728
Unsecured notes	433,580	—
	1,175,370	1,127,728
NET ASSETS (LIABILITIES)	37,396	(88,931)
CAPITAL AND RESERVES		
Share capital (Note 31)	108,397	102,501
Reserves (Note 32)	(71,001)	(191,432)
TOTAL EQUITY (CAPITAL DEFICIENCIES)	37,396	(88,931)

40. EVENT AFTER REPORTING PERIOD

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year), in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at its outstanding principal amount together with interest thereon at the rate of 5% per annum calculated from its date of issue to its first maturity date or if extended, to such extended maturity date.

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The changes included the presentation of net foreign exchange loss and the effect of foreign exchange rate changes, which were reclassified from the new bank borrowings raised and repayments of bank borrowings, included in the consolidated statement of cash flows. The new presentation and reclassification was considered to provide a more appropriate presentation of the consolidated statement of cash flows of the Group.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	1,531,102	1,543,920	1,702,664	1,799,488	**2,638,825**
Profit before tax	367,288	322,330	285,840	387,248	**1,080,971**
Income tax expense	(76,822)	(49,360)	(61,959)	(76,615)	**(90,848)**
Profit and total comprehensive income for the year	290,466	272,970	223,881	310,633	**990,123**
Profit and total comprehensive income attributable to					
– owners of the Company	290,466	272,970	223,881	310,633	**961,981**
– non-controlling interests	—	—	—	—	**28,142**
	290,466	272,970	223,881	310,633	**990,123**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	3,474,572	3,940,664	4,149,802	4,694,861	**7,308,311**
Total liabilities	(1,326,329)	(1,638,716)	(1,732,690)	(1,973,458)	**(3,135,138)**
	2,148,243	2,301,948	2,417,112	2,721,403	**4,173,173**
Equity					
Equity attributable to owners of the Company	2,148,243	2,301,948	2,417,112	2,721,403	**3,792,192**
Non-controlling interests	—	—	—	—	**380,981**
	2,148,243	2,301,948	2,417,112	2,721,403	**4,173,173**