

CHAIRMAN'S STATEMENT

**DEAR
SHAREHOLDERS,**

On behalf of the Board of Directors and the Management of China Stationery Limited ("China Stationery" or "the Company"), I am pleased to present the Company's Annual Report and Audited Financial Statements for the financial year ended 31 December 2016 ("FYE2016").



CHAIRMAN'S STATEMENT (cont'd)

The plastic stationery industry in China was not spared the market and economic challenges of 2016. But by any reckoning, our Group has performed commendably in such adverse conditions, which have affected markets worldwide.

In China, our principal market, there was a slowdown in market demands amidst increased competition. Despite this, we managed to weather the storm and chalk up another profitable year for the period under review.

We will continue to be prudent and proactive in our management and operations to put our Group on a stronger footing to further boost investor confidence.

Responding to market demands and changes in a timely manner and adapting to technological advancements will remain key to our success. Our products will continue to be of quality, innovative, attractive and cost competitive.

GROUP PERFORMANCE REVIEW

Our extensive distribution network is a testament to our global presence and the fact that we are not dependent on any single market. As at FYE2016, our Group has more than 141 distributors worldwide, including nine (9) exclusive distributors which on-sell our products to various retailers in their respective territories.

For the period under review, sales through distributors contributed more than 99.0% of our total revenue. We are targeting distributors as a major marketing strategy to achieve quicker market penetration. We now manufacture and sell a wide assortment of more than 450 types of plastic filing and storage products.

In view of the depressed market environment in the year under review, we have exercised caution in assessing plans and proposals for business expansion and corporate exercise. To be in line with our business philosophy, we are always on the lookout for opportunities that can generate all-round value to our Group and shareholders and contribute positively to our earnings.

REVIEW OF FINANCIAL PERFORMANCE

For FYE2016, China Stationery's revenue and profit after tax (PAT) remained positive at RMB495.60 million and RMB29.75 million respectively, compared with RMB381.28 million and RMB91.79 million achieved a year ago.

The higher revenue was mainly due to the increase in sales of our Non-Patented Products. Our wholly owned subsidiaries, Sakura Plastic and Sakura Stationery have resumed its production beginning of May 2015 after the fire incident.

Meanwhile, the lower PAT was mainly due to RMB58.5 million and RMB93 million of advertisement cost incurred in May 2016 and November 2016 respectively.

Sales of our Non-Patented Products increased by RMB142.54 million or 61.50% to RMB374.28 million in FYE2016 from RMB231.74 million previously due to the increase in sales volume from our filing and storage products and expandable files products. The increase was in line with our increased marketing and advertisement efforts and increase in orders for our products from our existing customers.

However, sales of our Patented Products decreased by RMB28.23 million or 18.88% to RMB121.32 million in FYE2016 from RMB149.55 million a year ago due to the global economic slowdown.

Our Company as at FYE2016 had cash and bank balances amounting to RMB1.85 billion.

To illustrate further our strength, China Stationery had shareholders' funds amounting to RMB2.75 billion.

FUTURE PROSPECTS

Being in an industry that is largely consumer driven, we will remain focused on our mission to be Asia's leading owner and provider of quality and innovative products that are preferred by consumers.

To achieve this, we will strengthen our existing 11-member Research and Development team, which is tasked with improving the quality of our existing products and developing new products.

Over the years, all the products we developed have been successfully commercialized. Going forward, the market can look forward to more new patented and non-patented products from our Group.

Apart from widening our range of product offerings, we are also continuously enhancing our production process to ensure our operations are sustainable and cost effective.

We will continue to promote our own brands, namely "SAKURA", "NACHI" and FOLDERSYS", through various advertising and promotion activities.

Given the prevailing economic environment, we foresee a challenging year in FYE2017. Furthermore, we have experienced a slow recovery in sales revenue following the fire incident on 4 April 2014.

CORPORATE GOVERNANCE

The Board of China Stationery holds value such as integrity, transparency and dedication among others, high on our list of priorities. We have placed much emphasis on corporate governance and are at all times looking to create the utmost value for our Shareholders. The measures taken and implemented have been outlined further in our Statement on Corporate Governance, the Audit Committee Report and Statement on Risk Management and Internal Control in this Annual Report.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Group recognises that it has responsibilities to all stakeholders which include the interests of employees; the need to foster the Group's business relationships with customers, suppliers and others and the impact of the Group's operations on the surrounding environment where it operates. Employees are highly regarded and valued, and their employment and other rights are respected. The Group is committed to the important principle of equal opportunity which is reflected in the Group's recruitment and disciplinary policies. The Group is dedicated to supplying products of high quality to meet its customers' needs.

The Group continues its promotion and support of practices for the use of resources in an environmentally friendly manner. The employees are encouraged to maximise efficiency and opportunities, and to minimise environmental impact through our working practices. We will also continue to identify activities where our support can make real difference to the world at large.

APPRECIATION

On behalf of the Board of Directors, I wish to extend my heartfelt gratitude to all our shareholders for their steadfast support and confidence in the Group.

China Stationery, I promise you, will continue to deliver value to all shareholders.

To our management and employees, I know no words to describe your dedication and contributions toward the continued success of China Stationery. Without all of your hard work and dedication our prospects will surely be very dim in comparison to what we have now. I thank you all from the bottom of my heart.

Chan Fung @ Kwan Wing Yin

Executive Chairman and Chief Executive Officer