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)

2011 Annual Report

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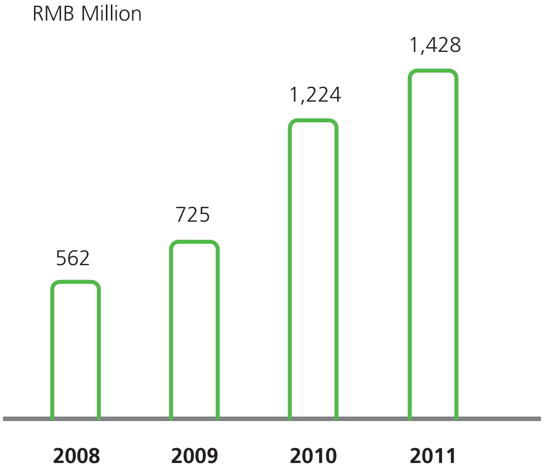

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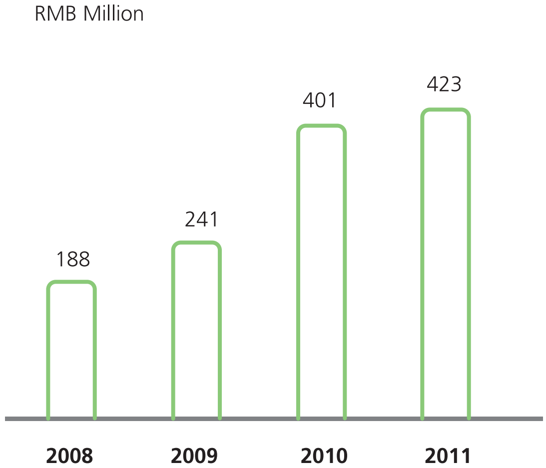

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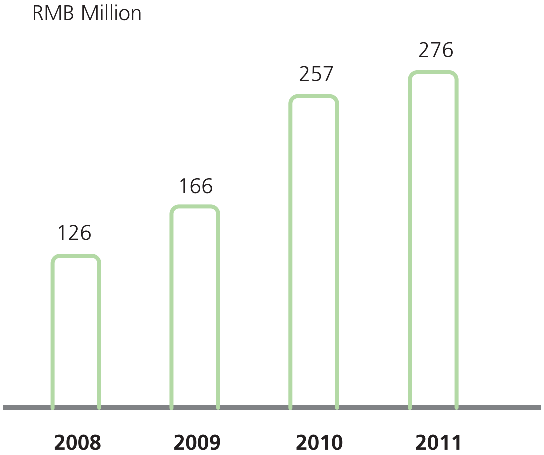

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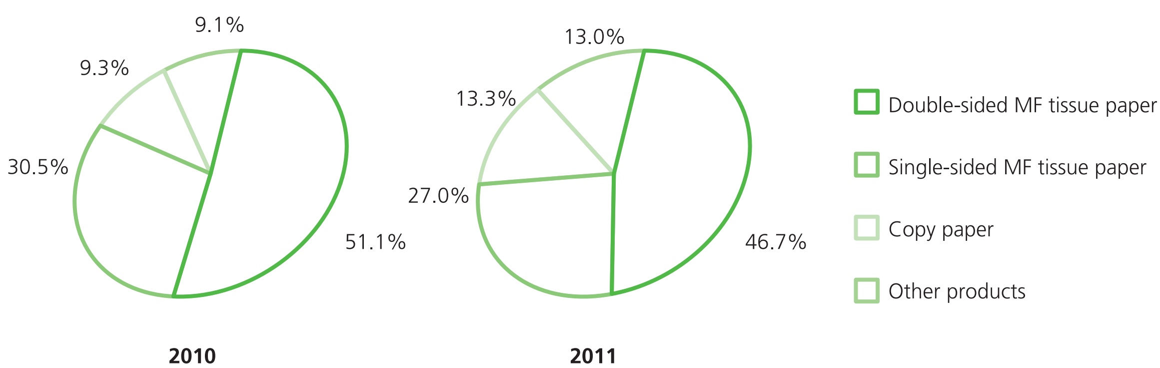

CORPORATE INFORMATION

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）

Non-executive director

Mr Paul Steven Wolansky
(resigned on 27 May 2011)

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Company secretary

Mr Wong Yat Sum, *ACCA, HKICPA*

Authorised representatives

Mr Ke Wentuo
Mr Wong Yat Sum

Cayman Islands share registrar and transfer office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
PO Box 609
Grand Cayman KY1-1107
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

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong
(effective from 13 February 2012)

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

Bank of China, Quanzhou Branch
China Merchants Bank, Quanzhou Branch
China CITIC Bank, Quanzhou Branch

Compliance adviser

Somerley Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd.

CHAIRMAN'S STATEMENT

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 2011. Against a backdrop of lingering uncertainties in the external environment that stemmed from the unresolving European debt crisis and the extremely slow recovery of the US economy, and China's continuing struggle to achieve a soft landing of its economy, we had still been able to maintain our business in a reasonably good shape, with continuing growth and improving competitiveness over our peers.

Business Review

For the year ended 31 December 2011, the Group's revenue was approximately RMB1,428.2 million (2010: RMB1,224.3 million), representing an increase of approximately 16.7% from that of the previous year. Profit attributable to owners of the Company increased by approximately 7.6% to approximately RMB276.0 million (2010: RMB256.5 million). Basic earnings per share amounted to approximately RMB0.276 (2010: RMB0.285) per share.

2011 marked the second year when the Company operates as a public company listed in Hong Kong. It was also during this short period when the Group experienced peaks and troughs in market sentiments rarely seen in the previous years. Thanks to our forward-looking industry insight and appropriate strategies to strengthen our flexibility in sourcing of raw materials as we had developed our own de-inking pulp production facilities, we have been able to mitigate the impact of volatility in raw pulp prices on our cost structure.

This puts ourselves in an enviable competitive advantage over our industry peers, especially in tough environment like what we had been just through.

With reference to "Development Blueprint of the Paper Manufacturing Industry during the Twelve Fifth-Year Plan Period" released in December 2011 by the State Development and Reform Commission, the Central Government has broadly adopted a policy vision that sees the country's paper manufacturing industry evolves to become more environment-friendly, resource-efficient, technologically-advanced, healthier in terms of the competitive landscape, and more self-sufficient in terms of sourcing of machineries and raw materials and product sales. As such, the paper manufacturing industry will be able to reinforce its position as a pillar industry in supporting China's sustaining growth and the country's migration to a more mature consumption-driven economy. That will in turn help to mitigate risks against not only market or economic cyclicalities but also occasional trade frictions on import of raw materials and export of finished products.

This policy inclination is in favour of paper manufacturers with substantial production capacities and capability to manufacture raw materials for self use, like ourselves. Substandard peers will lag behind or even be eliminated during the industry's consolidation, leaving only the truly competent participants behind to compete on quality, cost-efficiency and product innovation. With the great lengths we have gone through in the last few years in sharpening our edges in capacities and technologies, we are in better position than others in surviving this round of consolidation within our industry.

CHAIRMAN'S STATEMENT

Prospect and Strategy

Looking ahead, the Board of Directors of the Company (the "Board") believes that the major factors that propel development of the industry and technologically advanced participants including the Group remain intact, namely China's continuing economic development and escalating demand for high-quality and environment-friendly packaging materials; the country's ongoing migration into a domestic consumption-driven economy; the Central Government's policy inclination to eliminate small, less competitive participants using obsolete, high-emission facilities in favour of large-scale participants with more efficient and advanced production technologies.

We shall continue to consolidate and reinforce our leading position in high-end machine-finished tissue paper, expand our offerings to include tissue paper for various specially-dedicated usages; develop our paper towel and ivory board businesses; and pursue our development schedule in the high-end wall paper backing paper business as planned. Production for the first batch of facilities for wall paper backing paper is expected to commence in the third quarter of 2012.

The Group believes that in the year 2012, our business will derive more benefits than ever from the industry consolidation, leveraging our edges developed over the years in capacity and capabilities. These will continue to create better value for our shareholders.

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, 14 March 2012

Despite the deterioration of European sovereign debt crisis since mid-November 2011, recovery of the global economy had been continuing throughout the year. In line with the sustaining growth in the world demand for high-end wrapping paper due to natural consumption growth and the need to gradually phase out non-environment-friendly wrapping materials, the demand of high-end wrapping paper in China continued to grow at a relatively fast pace.

As mentioned in the "Development Blueprint of the Paper Manufacturing Industry during the Twelve Fifth-Year Plan Period" released by the State Development and Reform Commission in December 2011, China's paper consumption is forecasted to reach 1.15 trillion tonnes by 2015, representing a growth at 4.6% per annum on average from 917.3 billion tonnes recorded in 2010.

The blueprint has prescribed that the use of recycled pulp for the entire paper manufacturing industry should be raised to 64.0% by 2015 from 62.7% in 2010. Of these 64.0%, 41.0% should be coming from domestic recycled pulp manufacturers, up from 38.0% in 2010. It has also prescribed that small-scale, single production line recycled pulp manufacturers with capacities of 10,000 tonnes or less, along with those which are still operating narrow width, low-speed, high-wastage obsolete paper manufacturing equipment should all be eliminated by the end of the five-year period in order that the industry fulfils more stringent environmental protection requirements.

These outlined a policy inclination in favour of large-scale, technologically-advanced recycled pulp and paper manufacturers including the Group and the increasing use of fresh and recycled pulp sourced from domestic materials manufacturers.

Meanwhile, prices of imported wood pulp, after having risen substantially since early 2009, have continued their resilience of stabilizing at relatively high levels, barring occasional pitfalls. This momentum will continue to benefit manufacturers who can produce pulp, including fresh or recycled, for their own use.

Segmental Analysis

Double-sided and single-sided machine-finished tissue paper

Revenues generated from double-sided and single-sided machine-finished ("MF") tissue paper were RMB667.3 and RMB385.7 million, contributing to approximately 46.7% and 27.0% of the Group's revenue for the year, respectively.

To cope with the market demand, the Group is expanding both single-sided and double-sided MF tissue paper production lines by adding new facilities with planned annual production capacities aggregating 8,000 tonnes and 25,000 tonnes respectively which are expected to commence operation in 2012.

Copy paper

During this year, revenue generated from copy paper was RMB189.3 million, representing an increase of 67.1% when compared with last year, and contributed to approximately 13.3% of the Group's revenue.

A new production line with a planned annual production capacity of 30,000 tonnes had commenced operation in the first half of 2011, generating a new source of revenue for this segment, at RMB81.3 million. The Group believes the additional capacity will be able to provide a wider range of copy paper products satisfying the needs and demands from different customers.

Wall paper backing paper

According to the Group's expansion plan, a new production line of wall paper backing paper with a planned annual production capacity of 35,000 tonnes is expected to commence operation in the third quarter of 2012.

Other products

Paper towel

During this year, revenue generated from paper towel was RMB76.7 million, representing an increase of 66.6% when compared with last year, and contributed to approximately 5.4% of the Group's revenue.

Four new paper towel production lines with planned annual production capacities aggregating 24,000 tonnes commenced operation on a trial basis at the end of 2011, capitalizing on the success of the launch of paper towel in early 2010.

Ivory boards

During this year, revenue generated from ivory boards was RMB109.2 million, representing an increase of 64.0% when compared with last year, and contributed to approximately 7.6% of the Group's revenue.

Ivory boards are auxiliary products of wrapping tissue paper that provide convenience to existing customers of MF tissue paper, a move that will in turn strengthen the sales channels of the Group.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (by breakdown of locations from which sales were originated), with over 93.0% of Group's revenue during the year derived from these two regions.

Operational Analysis

As at 31 December 2011, the Group operated 30 paper production lines with designed annual production capacities aggregating 252,000 tonnes, including 150,000 tonnes for double-sided and single-sided MF tissue paper, 44,000 tonnes for copy paper, 38,000 tonnes for paper towel and 20,000 tonnes for ivory boards.

As at 31 December 2011, the Group was also equipped with two de-inking pulp production lines with designed annual production capacities aggregating 90,000 tonnes for its own use at Huaxiang Factory. A new de-inking pulp production line with a designed annual production capacity of 60,000 tonnes at Xiyuan Factory is under construction and is expected to commence operation in the first half of 2012. This expansion of in-house de-inking pulp production capacity enables us to reap further benefits on costs.

All the future expansion of production capacities will be surrounding the Group's existing three production bases. The Group will acquire more land when available as its land reserve.

Prospects

Looking ahead, while the Central Government of China is still actively pursuing a soft landing of the economy in China, the following policy directives to optimize the structure of the country's paper making industry during the Twelve Five-Year Plan are set to reinforce the Group's industry leading position:

1. Intensifying consolidation of the industry to concentrate production activities among a smaller number of stronger participants with larger capacities and scale to enhance efficiency of supervision;

2. Promoting development and deployment of domestically-developed paper and pulp making technologies to raise the industry's overall standard to better align with its international peers;

3. Enhancing resources utilization efficiency and reducing emission from the production process;

4. Further efforts to phase out obsolete and inefficient capacities.

These major directives, when coupled with the sustaining trends to groom domestic consumption into the country's mainstay economic growth driver and maintenance of prices of imported wood pulp at relatively high levels, should favor manufacturers like the Group that have their own de-inking pulp manufacturing technology and capacity, and advanced production technologies.

With regards to the decision of the Group to diversify into high-end wall paper backing paper business announced early of 2011, it is expected the first phase of 35,000 tonnes capacity should commence production in the third quarter of 2012 on scheduled. The Group remains immensely optimistic and looks forward to the imminent launch of this business which will evolve as another strong income stream.

The latest production capacity expansion plan of the Group would see its total production capacity to increase by approximately 68,000 tonnes from 252,000 tonnes at 31 December 2011 to 320,000 tonnes by the end of 2012, to be funded by internal resources together with external bank borrowings. The Group believes that it is well-positioned to leverage its leading industry and market positions and strong production capacities to reap benefits from the sustaining growth in demand for wrapping tissue paper and other specialty paper in mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The revenue of the Group for the year ended 31 December 2011 was RMB1,428.2 million, representing an increase of approximately 16.7% from RMB1,224.3 million for the year ended 31 December 2010. Profit and total comprehensive income attributable to owners of the Company increased by approximately 7.6% from RMB256.5 million for the year ended 31 December 2010 to RMB276.0 million for the year ended 31 December 2011.

Basic earnings per share for the year ended 31 December 2011 edged slightly down to RMB0.276 per share when compared with RMB0.285 per share for the previous year, based on the profit attributable to owners of the Company of RMB276.0 million (2010: RMB256.5 million) and the weighted average of 1,000,000,000 shares (2010: 900,000,000 shares) in issue during the reporting period. The slight drop in basic earnings per share was primarily caused by the increase in weighted average number of issued share capital during the reporting period.

Gross profit

Gross profit of the Group increased from RMB401.1 million for the year ended 31 December 2010 to RMB422.9 million for the year ended 31 December 2011.

Overall gross profit margin of the Group narrowed from 32.8% for the year ended 31 December 2010 to 29.6% for the year ended 31 December 2011. The decline was primarily a result of the change in the sales mix of the Group's products as the Group launched paper towel and ivory boards in the first half of 2010 with relatively lower gross profit margins when compared with that of MF tissue paper. Since the contribution of these products climbed to 13.0% of the Group's total revenue for the year ended 31 December 2011 from 9.1% for the year ended 31 December 2010, the overall gross profit margin changed accordingly.

Other income and other gains and losses

Other income and other gains and losses of the Group improved from a net loss of RMB5.8 million for the year ended 31 December 2010 to a net loss of RMB4.7 million for the year ended 31 December 2011, mainly due to the decrease in net foreign exchange loss during the year.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 39.9% from RMB5.7 million for the year ended 31 December 2010 to RMB8.0 million for the year ended 31 December 2011, representing approximately 0.5% and 0.6% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to the increase in marketing resources allocated to promotional activities.

Administrative expenses

Administrative expenses of the Group increased by approximately 21.5% from RMB51.5 million for the year ended 31 December 2010 to RMB62.6 million for the year ended 31 December 2011, representing approximately 4.2% and 4.4% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to the increase in depreciation charges for property, plant and equipment, release of prepaid lease payments, employee benefits expenses and professional fees for compliance as a listed company.

Finance costs

Finance costs of the Group decreased by approximately 8.9% from RMB22.3 million for the year ended 31 December 2010 to RMB20.3 million for the year ended 31 December 2011, primarily due to the higher portion of borrowing costs capitalised during the year under review.

Interest rates of bank loans ranged from 4.78% to 7.87% for the year ended 31 December 2011, compared with 4.78% to 5.40% for the year ended 31 December 2010.

Other expenses

For the year ended 31 December 2011, other expenses mainly represented research and development expenses on energy conservation, consumption reduction, environmental protection system and application of recycled materials as raw materials across productions amounting to RMB11.2 million, set off against write-back of accruals for listing expenses of RMB3.1 million.

For the year ended 31 December 2010, other expenses represented professional fees and other expenses related to the listing of shares of the Company on the Stock Exchange of Hong Kong Limited.

Taxation

Tax charge increased by approximately 13.1% from RMB38.3 million for the year ended 31 December 2010 to RMB43.3 million for the year ended 31 December 2011, primarily due to the increase in taxable profits of the Group's subsidiaries in mainland China. The Group's effective tax rates for the years ended 31 December 2010 and 2011 were 13.0% and 13.6%, respectively.

Profit attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB256.5 million for the year ended 31 December 2010 to RMB276.0 million for the year ended 31 December 2011. The ratio of profit attributable to owners of the Company to revenue narrowed down from approximately 21.0% for the year ended 31 December 2010 to approximately 19.3% for the year ended 31 December 2011 mainly due the change in the sales mix.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp and recovered paper for de-inking pulp production. For the year ended 31 December 2011, the inventory turnover cycle was approximately 69.7 days (2010: 56.9 days). The turnover cycle lengthened primarily due to an increase in stock level of recovered paper during the year.

The turnover cycle for trade receivables for the year ended 31 December 2011 was lengthened to 67.2 days (2010: 56.4 days) primarily due to slightly longer credit period granted to customers. The Group's standard credit term to customers is 60 days.

The turnover cycle for trade and bills payables was lengthened to 56.0 days (2010: 51.0 days) as the Group arranged longer payments terms with its suppliers in order to match the cash flow cycle from trade receivables.

Borrowings

As at 31 December 2011, the Group's bank loan balance amounted to RMB532.1 million, of which RMB452.1 million will be due for repayment within the next twelve months (2010: RMB553.7 million, of which RMB 264.6 million will be due for repayment within the next twelve months).

As at 31 December 2011, the Group's bank borrowings of RMB193.0 million were carried at fixed interest rates (2010: RMB143.0 million).

As at 31 December 2011, the Group's gross gearing ratio was approximately 21.1% (2010: 24.4%), which was calculated on the basis of the total borrowings as a percentage of the total assets. The net gearing ratio, which was calculated on the basis of total borrowings less cash and bank balances as a percentage of shareholder equity, was 24.5% (2010: 6.0%).

Pledge of assets

As at 31 December 2011, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying values of RMB460.1 million and RMB262.9 million, respectively (2010: RMB470.8 million and 228.4 million, respectively) as collaterals backing the credit facilities granted to the Group.

Cash flow management

As at 31 December 2011, the Group had net current liabilities of RMB17.5 million (2010: net current assets of RMB 395.1 million). The turnaround came as a result of the decrease in bank balance and cash due to the payment for property, plant and equipment; reinforced by a huge portion of bank borrowings due within twelve months from the end of the financial year which was reclassified as current liabilities from non-current liabilities in the previous year.

The management will closely monitor the cash flow position to ensure that the Group has adequate working capital to support its daily operations. The management are of the opinion that, taking into account the unutilised banking facilities of approximately RMB763.8 million as at 31 December 2011 and internal financial resources of the Group, the Group has sufficient working capital for its present requirements for at least one year from the end of the reporting period.

Capital expenditure

For the year ended 31 December 2011, the Group invested RMB430.8 million (2010: RMB 395.3 million) in construction of production facilities and equipments.

Human Resources Management

As at 31 December 2011, the Group employed 2,134 staff (2010: 1,815 staff) and the total remuneration for the year ended 31 December 2011 amounted to approximately RMB60.9 million (2010: RMB38.6 million). The Group's remuneration packages are commensurate with the experience 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.

Final Dividend

The Board has resolved to recommend to shareholders of the Company (the "Shareholders") distribution of a final dividend for the year ended 31 December 2011 of HK6.8 cents per share (2010: Nil), totaling HK$68,000,000, subject to approval by Shareholders at the annual general meeting (the "AGM") to be held on 8 May 2012. If so approved by the Shareholders, it is expected that the final dividend will be paid on or about 28 May 2012 to Shareholders whose names appear on the register of member of the Company on 18 May 2012.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

(i) From 3 May 2012 to 8 May 2012 (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 AGM, 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, not later than 4:30 pm on 2 May 2012 for registration of transfer.

(ii) From 15 May 2012 to 18 May 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the final dividend to be approved at the AGM (and payable on or about 28 May 2012), 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, not later than 4:30 pm on 14 May 2012 for registration of transfer.

Executive Directors

Mr Ke Wentuo（柯文托）, aged 55, 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 Tenth Quanzhou Committee of the PRC People's Political Consultative Conference*(中國人民政治協商會議第十屆泉州委員會)since December 2009. 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 28, 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 47, 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（張國瑞）, aged 48, 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.

* for identification only

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Prof. Zhang Daopei（張道沛）, aged 75, 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 Lihui（陳禮輝）, aged 46, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Chen graduated from Fuzhou University*（福州大學）with a bachelor of engineering degree majoring in machine manufacturing processes and equipment in 1987. He then earned his master´s degree in 1996 and his doctorate degree in 2003 majoring in pulp and paper engineering from South China University of Technology*（華南理工大學）. From July 1987 to October 2000, Prof. Chen was with the Fujian College of Forestry*（福建林學院）(now part of Fujian Agriculture and Forestry University*（福建農林大學）), working in various capacities as an assistant professor, a lecturer, an associate professor and an instructor for master´s degree research students. Since November 2000, Prof. Chen was with the Material Engineering College*（材料工程學院）of the Fujian Agriculture and Forestry University*（福建農林大學）, working at various times as a professor, an instructor of doctorate and master degree students and a colleage dean. Prof. Chen was awarded the Fujian Young Scientist Award*（福建青年科技獎）in 2006 for his outstanding achievements in technology, and has won awards for numerous research projects in China, including the Fujian Technology Award*（福建省科學技術獎）in December 2003, 2004, 2005 and February 2009, and the Fuzhou Technological Advancement Award*（福州市科學技術進步獎）in September 2008.

Mr Chow Kwok Wai(周國偉), aged 45, 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 an executive director 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 Lijun International Pharmaceutical (Holding) Co., Ltd. (stock code: 2005), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Ltd.

*   for identification only

Senior management

Mr Lin Wenfeng(林文峰), aged 43, is the assistant to our Chairman. Mr Lin joined our Group in 2008 and is responsible for assisting our Chairman in administration and management of our Group. Mr Lin graduated with a college diploma from Anhui University of Finance & Economics*（安徽財經大學）majoring in finance and accounting in 2005 and graduated from Anhui University*（安徽大學）, majoring in law in 2008. Prior to joining our Group, Mr Lin was with Bank of China Jinjiang Branch between October 1988 and May 2007, where he was responsible for the bank's credit management, credit limit management and overall branch management.

Mr Wong Yat Sum(黃一心), aged 35, 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 an associate member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. 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 47, 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 37, 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. 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 48, 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.

* for identification only

DIRECTORS AND SENIOR MANAGEMENT

Mr Shuai Liangming（帥亮明）, aged 47, 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 50, 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.

Mr Chen Taibin（陳太斌）, aged 34, is Manager of Human Resources Department of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Mr Chen joined our Group in 2009 and is responsible for hiring and training at Youlanfa. Mr Chen graduated and obtained a college diploma from Fujian Normal School*（福建師範專科學校） in 1995 majoring in chemistry. Prior to joining our Group, Mr Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.*（福建省晉江三源食品實業有限公司）as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms Yan Yahong(顏雅紅), aged 29, is Deputy Manager of our Purchasing Department. Ms Yau 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.

* for identification only

Code of Corporate Governance Practice

Our Company has adopted the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limit ("Listing Rules") as its own code of corporate governance. For the year ended 31 December 2011 ("Review Period"), the Directors consider that our Company has complied with all the code provisions as set out in the Code.

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

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

Model Code for Securities Transactions by Directors

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of 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 throughout the Review Period.

Board of Directors

(i) Board Composition

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

As at the date of this annual report, the board of Directors ("Board") was consisted 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 Lihui
Mr Chow Kwok Wai

Among members of the Board, Mr Ke Jixiong is the son of Mr Ke Wentuo. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family 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 (together, the "Group").

(ii) Board Functions and Duties

The principal functions and duties conferred to the Board include:

- 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; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

(iii) Board Meetings

During the Review Period, there were six board meetings held, at which the Directors approved, among other things, the annual result of the Group for the year ended 31 December 2010 and the interim result for the six months ended 30 June 2011.

Prior notices convening the 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 had been responsible for keeping minutes for the board meetings.

(iv) Attendance Record

The following is the attendance record of the board meeting held by the Board during the Review Period:

	Attendance at meetings
Executive directors	
Mr Ke Wentuo (Chairman)	6/6
Mr Ke Jixiong (Chief Executive Officer)	6/6
Mr Cao Xu	6/6
Mr Zhang Guoduan	6/6
Non-executive director	
Mr Paul Steven Wolansky (resigned on 27 May 2011)	1/6
Independent non-executive directors	
Prof. Zhang Daopei	4/6
Prof. Chen Lihui	3/6
Mr Chow Kwok Wai	4/6

(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 17 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. The Board considers that all independent nonexecutive Directors are independent with reference to the factors stated in the Listing Rules.

(vi) Appointment and Re-election of Directors

According to the articles of association of the Company, 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.

Mr Ke Wentuo, Mr Ke Jixiong and Mr Chow Kwok Wai will retire from the Board by rotation at the forthcoming annual general meeting and, are eligible to offer themselves for re-election.

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

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.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 27 May 2010. Each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 27 May 2010.

(vii) 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.

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the Code. As at 31 December 2011, our remuneration committee comprised Mr Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihui. Prof. Chen Lihui 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 on performance of individual employees 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 as incentives for their contributions to our Group.

During the Review Period, the remuneration committee held one meeting. The members of 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 meetings held by the remuneration committee during the Review Period.

	Attendance at meeting
Prof. Chen Lihui (appointed as Chairman on 22 December 2011)	1/1
Prof. Zhang Daopei	1/1
Mr Ke Wentuo (ceased to be Chairman on 22 December 2011)	1/1

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the Code. The nomination committee comprised Mr. Prof. Zhang Daopei, Prof. Chen Lihui 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, there was no meeting of the nomination committee held. And subsequent to 14 March 2012, the nomination committee held a meeting and reviewed the current structure, size and composition of the Board and the remuneration of the senior management.

Audit Committee

Our Company has established an audit committee with written terms of reference based upon the provisions and recommended practices of the Code on 30 April 2010. The primary responsibilities of our audit committee are to review and supervise financial reporting processes and internal control system of the Group. As at 31 December 2011, our audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, 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 held two meeting and subsequently on 14 March 2012, the audit committee held a meeting. The members of audit committee reviewed the Company's financial reporting system and internal control system and the Group's interim report for the six months ended 30 June 2011 and audited financial statements for the year ended 31 December 2011 in conjunction with the Company's external auditor. They were of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, 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 Lihui	2/2

Auditor's Remuneration

For the year ended 31 December 2011, the total fee paid/payable in respect of audit services to the external auditor of our Group, Deloitte Touche Tohmatsu was approximately RMB2.3 million. There were no non-audit services provided by external auditor of our Group during the year ended 31 December 2011.

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

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

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Independent Auditor's Report on page 31 of this annual report.

Internal Control

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.

Our Board is responsible for maintaining and reviewing the effectiveness of the internal control system of our Company.

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

Our Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended 31 December 2011, our Board considered that the internal control system of our Group was adequate and effective and our Company had complied with the code provisions on internal control of the Code.

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 of the Company 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 the shareholders of the Company to facilitate enforcement of shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep shareholders of the Company 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 of the Company and investors to have timely accesses to information about the Group.

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries for the year ended 31 December 2011.

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 (the "Shares") have been listed on The Stock Exchange of Hong Kong Limited ("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 31 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 32 of this report.

The Directors recommend the payment of a final dividend of HK$0.068 (approximately amounted to RMB 0.055) (2010: Nil) per ordinary share. Such dividend is to be approved by shareholders of the Company at the annual general meeting to be held on 8 May 2012.

Reserves

Movements in reserves of the Group during the year ended 31 December 2011 are set out in pages 34 to 35 of this report.

As at 31 December 2011, the reserves of our Group available for distribution to shareholders amounted to RMB867,005,000 (as at 31 December 2010: RMB563,869,000).

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 25 to the consolidated financial statements.

Directors

The list of Directors during the year is set out in the section headed "Directors and senior management" on pages 13 to 14 of this report.

Financial Summary

A financial summary of the Group for the last five years are set out on page 76 of this report.

Borrowings

Details of bank borrowings of the Group as at 31 December 2011 are set out in note 24 to the consolidated financial statements.

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 Shareholder passed on 30 April 2010:

(1) The purpose of the Scheme

The purpose of the Scheme is to give the eligible persons (the "Eligible Person") (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company helping in 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 Person 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 Share Option 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 paragraphs (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 Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as of 27 May 2010, i.e. 100,000,000 Shares.

(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 of our Company 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 Company's 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 Share Option 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 Share Option 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 Share Option 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 Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option 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 Share Option Scheme.

As at 31 December 2011, no options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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 2011, 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 Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Ke Wentuo	Interest in controlled corporation and interest of spouse[1]	573,750,000	57.38%
Mr Ke Jixiong	Interest in controlled corporation[2]	33,000,000	3.30%

Note 1: The interest in 573,750,000 Shares comprise of:

(i) 550,050,000 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and

(ii) 23,700,000 Shares held by Denron International Limited ("Denron"), which in turn is wholly beneficially owned by Ms Cai Lishuang, and Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 23,700,000 Shares held by Denron.

Note 2: The interest in 33,000,000 Shares refer 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 2011, 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	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port Holdings Limited	Beneficial interest[1]	550,050,000	55.01%
Ms Cai Lishuang	Interest in controlled corporation and interest of spouse[2]	573,750,000	57.38%
Cathay Special Paper Limited	Beneficial interest[3]	88,350,000	8.84%

Note 1: 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.

Note 2: 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.

Note 3: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 31 December 2011, 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.

Contracts of Significance

No contracts of significance in relation to the business of our Group, to which our Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts 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 5.2% (2010: 6.4%) and 22.9% (2010: 25.3%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 34.2% (2010: 37.3%) and 83.4% (2010: 79.5%) of the Group's total purchases respectively.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of our Company's share capital) had an interest in the top five customers and suppliers of our Group.

Deed of Non-competition

The controlling shareholder has confirmed to the Company of his compliance with the non-compete undertakings provided to the Company under the Deed of Non-competition (as defined in the Prospectus). The independent non-executive Directors of the Company 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 shareholder.

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

For the year ended 31 December 2011, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

Use of Net Proceeds from Initial Public Offering

The Shares were listed on 27 May 2010 on the Main Board of the Stock Exchange. The total net proceeds from the listing after the issue of the Shares amounted to approximately RMB 510.5 million, which are intended to be applied as set out in the section headed "Use of Proceeds" of the Prospectus.

	Intended use of proceeds stated in the Prospectus	Amount of net proceeds RMB'million	Proceeds utilized at of 31 Dec 2011 RMB'million
Purchase of machinery and equipment relating to new production facilities	45%	229.7	229.7
Construction of new plant and supporting facilities to support production of new products and increases to production capacity	40%	204.2	204.2
Working capital and other general corporate purposes	10%	51.1	51.5
Marketing expenses for growing our existing business in the PRC	5%	25.5	3.3
Total	100%	510.5	488.7

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the year ended 31 December 2011 and up to the date of this report.

Auditor

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as our auditor.

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 14 March 2012

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 75 , which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011	2010
		RMB'000	RMB'000
Revenue	8	1,428,235	1,224,297
Cost of sales		(1,005,292)	(823,211)
Gross profit		422,943	401,086
Other income and other gains and losses	10	(4,728)	(5,811)
Selling and distribution expenses		(8,007)	(5,722)
Administrative expenses		(62,578)	(51,498)
Finance costs	11	(20,281)	(22,271)
Other expenses		(8,092)	(20,952)
Profit before tax	12	319,257	294,832
Income tax expense	13	(43,290)	(38,283)
Profit and total comprehensive income for the year attributable to the owners of the Company		275,967	256,549
		RMB	RMB
Earnings per share - Basic	16	0.276	0.285

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**1,355,972**	1,005,940
Prepaid lease payments	18	**275,269**	253,562
Deposits paid for acquisition of property, plant and equipment		**177,754**	108,540
Deposits paid for acquisition of land use right		**60,683**	22,155
		1,869,678	1,390,197
CURRENT ASSETS			
Inventories	20	**237,684**	146,496
Trade and other receivables	21	**307,780**	264,329
Prepaid lease payments	18	**5,800**	5,770
Pledged bank deposits	22	**4,857**	1,855
Bank balances and cash	22	**98,121**	463,634
		654,242	882,084
CURRENT LIABILITIES			
Trade and other payables	23	**210,575**	209,429
Income tax payables		**9,038**	12,952
Bank borrowings	24	**452,120**	264,560
		671,733	486,941
NET CURRENT (LIABILITIES) ASSETS		**(17,491)**	395,143
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,852,187**	1,785,340
NON-CURRENT LIABILITY			
Bank borrowings	24	**80,000**	289,120
		1,772,187	1,496,220
CAPITAL AND RESERVES			
Share capital	25	**87,680**	87,680
Reserves		**1,684,507**	1,408,540
TOTAL EQUITY		**1,772,187**	1,496,220

The consolidated financial statements on pages 32 to 75 were approved and authorised for issue by the Board of Directors on 14 March 2012 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company						
	Share capital	Share premium	Capital reserve	Special reserve	Statutory surplus reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note a)	(Note b)	(Note c)		
At 1 January 2010	—	—	111,623	67,867	38,831	336,526	554,847
Arising from group reorganisation	1	—	—	(1)	—	—	—
Profit and total comprehensive income for the year	—	—	—	—	—	256,549	256,549
Capitalisation issue (Note 25)	65,759	(65,759)	—	—	—	—	—
Issue of new shares (Note 25)	21,920	543,617	—	—	—	—	565,537
Share issue expenses	—	(26,389)	—	—	—	—	(26,389)
Deemed contribution from holding company	—	—	145,676	—	—	—	145,676
Appropriation	—	—	—	—	29,206	(29,206)	—
At 31 December 2010 and 1 January 2011	87,680	451,469	257,299	67,866	68,037	563,869	1,496,220
Profit and total comprehensive income for the year	—	—	—	—	—	275,967	275,967
Transferred to accumulated profits (Note d)	—	(55,200)	—	—	—	55,200	—
Appropriation	—	—	—	—	28,031	(28,031)	—
At 31 December 2011	87,680	396,269	257,299	67,866	96,068	867,005	1,772,187

Note a: Capital reserve comprise of:

(i) pursuant to the agreement dated 30 September 2009, Mr. Ke Wentuo, the ultimate controlling shareholder of the Group, waived the amount due to him of RMB111,623,000. Such amount was recorded in capital reserve as deemed contribution from a shareholder.

(ii) pursuant to the agreement dated 1 September 2008, Smart Port Holdings Limited ("Smart Port"), the immediate holding company of the Group, agreed to transfer 1.25% of the total shares ("Transferred Shares") of the Company outstanding immediately before the initial public offering ("IPO") of the Company to a consulting company as IPO consulting fee. As the Company was successfully listed on 27 May 2010, the shares were transferred to the consulting company in May 2010 by Smart Port. The fair value of the Transferred Shares of RMB5,690,000 was credited to capital reserve as deemed contribution from Smart Port.

(iii) pursuant to the agreement dated 5 May 2010, Smart Port, the immediate holding company of the Group, waived the amount due to Smart Port of RMB139,986,000. Such amount was recorded in capital reserve as deemed contribution from a shareholder.

Note b: Special reserve comprises of:

(i) an amount of RMB65,380,000, being the difference between the consideration of US$1.00 paid and paid-in capital of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") resulted from the acquisition of 94.92% equity interest of Youlanfa from Uniland Box Products Manufacturing by Sunwell Trading (HK) Company Limited ("Sunwell") as part of the group reorganisation;

(ii) an amount of RMB10,000, being the difference between the consideration of HK$9,990,000 paid and the share capital of Sunwell resulted from the subscription of 99.9% equity interest of Sunwell by Xi Yuan Paper Limited ("Xi Yuan BVI") as part of the group reorganisation;

(iii) an amount of RMB1,764,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of RMB2,150,000 resulted from the acquisition of additional interests in Fujian Xiyuan Paper Co., Ltd. ("Xiyuan");

(iv) an amount of RMB713,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of RMB19,460,000 resulted from the acquisition of additional interests in Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang") and Youlanfa; and

(v) an amount of RMB870, being the difference between the consideration of RMB877, representing 9,999 ordinary shares of the Company, and the share capital of Xi Yuan BVI resulted from the subscription of 100% equity interest of Xi Yuan BVI by the Company as part of the group reorganisation.

Note c: According to the relevant laws in the People's Republic of China (the "PRC"), the PRC subsidiaries are required to transfer at least 10% of their net profit after taxation, 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.

Note d: Pursuant to board resolutions of directors passed on 22 December 2011, the directors were authorised, and resolved, to transfer RMB55,200,000 (2010: Nil) from share premium account to accumulated profits. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**319,257**	294,832
Adjustments for:		
Interest income	**(941)**	(1,375)
Finance costs	**20,281**	22,271
Loss on disposal of property, plant and equipment	**5,234**	502
Share-based payment expense	**—**	4,268
Depreciation of property, plant and equipment	**44,066**	31,206
Depreciation of investment properties	**—**	228
Release of prepaid lease payments	**5,822**	5,749
Overprovision of listing and related expenses	**(3,092)**	—
Reversal of obsolete inventories	**—**	(179)
Operating cash flows before movements in working capital	**390,627**	357,502
Increase in inventories	**(91,188)**	(36,035)
Increase in trade and other receivables	**(43,451)**	(112,877)
Increase in trade and other payables	**2,277**	91,871
Decrease in amount due to a related party	**—**	(8,584)
Cash generated from operations	**258,265**	291,877
Income taxes paid	**(47,204)**	(28,649)
NET CASH FROM OPERATING ACTIVITIES	**211,061**	263,228
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(443,617)**	(455,275)
Payments for prepaid lease payments	**(66,087)**	(22,155)
Withdrawal of pledged bank deposits	**6,045**	4,252
Placement of pledged bank deposits	**(9,047)**	(3,247)
Interest received	**941**	1,375
Proceeds from disposal of property, plant and equipment	**3,904**	152
NET CASH USED IN INVESTING ACTIVITIES	**(507,861)**	(474,898)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	—	565,537
New bank borrowings raised	258,000	228,000
Advance from immediate holding company	—	44,381
Repayments of bank borrowings	(279,560)	(197,320)
Interest paid	(30,085)	(27,448)
Payments of transaction costs attributable to issue of new shares	(17,068)	(23,022)
Repayment to from ultimate controlling shareholder	—	(1,649)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(68,713)	588,479
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(365,513)	376,809
CASH AND CASH EQUIVALENTS AT 1 JANUARY	463,634	86,825
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	98,121	463,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

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 have been 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"). The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 31.

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

2. GROUP RESTRUCTURING AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the group reorganisation as set out in the section headed "Statutory and General Information" in Appendix VI to the prospectus dated 14 May 2010 issued by the Company, the Company acquired the 100% equity interest in Xi Yuan Paper Limited ("Xi Yuan BVI") and became the holding company of Xi Yuan BVI on 14 January 2010. The Group resulting from the group reorganisation continued to be controlled by the controlling shareholder, Mr. Ke and therefore is regarded as a continuing entity.

Accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Xi Yuan BVI. The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2010 have been prepared as if the group structure after group reorganisation had been in existence throughout the year ended 31 December 2010.

The Group had net current liabilities of approximately RMB17,491,000 as at 31 December 2011. The directors of the Company ("Directors") are of the opinion that, taking into account the unutilised banking facilities of approximately RMB763,776,000 as at 31 December 2011 and internal financial resources of the Group, the Group has sufficient working capital for its present requirements for at least one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and revised Standards, Amendments and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised Standards, Amendments and Interpretations in current year has had no material effect on the consolidated financial statements of the Group.

New and revised Standards, Amendments and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[1]
	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The Directors anticipate the adoption of IFRS 9 will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the financial instruments on 31 December 2011.

The Directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on consolidated financial statements of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of (other than business combinations involving entities under common control) during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or 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 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.

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 accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

An investment property is transferred to property, plant and equipment at carrying amount on the date the property is occupied by the owner.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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 added to 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.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are 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.

Retirement benefit costs

Payments to defined contribution retirement benefit plans or state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences 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 associated with investments in subsidiaries, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets 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. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial Instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instrument

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities and equity instrument (continued)

Financial liabilities

Financial liabilities including bank borrowings and trade and other payables, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

Transaction costs related jointly to concurrent offering of some shares and listing of shares are allocated using a basis of allocation that is rational and consistent with similar transactions.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognizes a financial liability when and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

When a shareholder transferred the instruments of a group entity to consultants in exchange for services provided to the Group, the transaction is accounted for as equity-settled share-based payment transaction of the Group. The equity instruments transferred to consultants are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the equity instruments at the grant date. The fair value of the services received are recognised as expenses over the service period, unless the services qualify for recognition as assets.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, 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.

Key sources of estimation uncertainty

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 year. The carrying amount of property, plant and equipment is RMB1,355,972,000 (2010: RMB1,005,940,000).

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 2011, the carrying amount of trade receivables is RMB281,212,000 (2010: RMB244,451,000). There is no allowance for doubtful debts as at 31 December 2011 and 2010.

6. CAPITAL RISK MANAGEMENT

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. The Group considers the cost of capital and the risks associated 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.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2011 RMB'000	2010 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**384,190**	709,940
Financial liabilities:		
Amortised cost	**708,910**	737,376

7b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings. 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.

Market risk

(i) 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 including bank balances and cash and note payables at the end of the reporting period are as follows:

	Assets		Liabilities	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Hong Kong Dollar ("HK$")	**4,279**	98,801	**—**	20,146
United Sates Dollar ("US$")	**4,939**	9,954	**19,103**	5,105

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

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 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used for management's assessment of the reasonably possible change in foreign exchange rates. 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 5% against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

	HK$		US$	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss (i)	**(214)**	(3,933)	**708**	(242)

(i) This is mainly attributable to the exposure on HK$ and US$ denominated bank balances, other receivables and note payables at the end of the reporting period.

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate pledged bank deposits and bank borrowings. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see notes 24 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 cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") arising from the Group's RMB denominated borrowings.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

In the management's opinion, the Group does not have significant exposure to interest rate risk related to its variable-rate bank balances during the year ended 31 December 2011 and 2010, so no sensitivity analysis is presented.

The sensitivity analyses below have been determined based on the exposure to interest rate risk for variable-rate bank borrowings. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used for management's assessment of the reasonably possible change in interest rates.

At 31 December 2011, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB1,272,000 (2010: RMB1,540,000) for the year ended 31 December 2011.

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 and pledged bank deposits 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 2011 and 2010.

The Group has concentration of credit risk as 24% (2010: 26%) of the total trade receivables was due from the Group's five largest customers with good credit history in the industry as at 31 December 2011. 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.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Liquidity risk

The Group has net current liabilities of RMB17,491,000 as at 31 December 2011 (2010: Net current assets of RMB395,143,000). The Group is exposed to liquidity risk if it is not able to raise sufficient funds to meet its financial obligations. In order to manage the liquidity risk, the management of 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 and ensures compliance with loan covenants.

As at 31 December 2011, the Group had available unutilised banking facilities of approximately RMB763,776,000 (2010: RMB263,520,000). The Directors will closely monitor the liquidity position, and they are of the opinion that the Group has sufficient working capital for at least one year from the end of the reporting period.

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.

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	Undiscounted cash flows RMB'000	Total Carrying amount RMB'000
At 31 December 2011						
Trade and other payables	—	176,789	—	—	176,789	176,790
Bank borrowings						
– fixed rate	6.42	198,282	—	—	198,282	193,000
– variable rate	5.33	265,542	49,089	40,260	354,891	339,120
		640,613	49,089	40,260	729,962	708,910
At 31 December 2010						
Trade and other payables	—	183,696	—	—	183,696	183,696
Bank borrowings						
– fixed rate	5.04	145,887	—	—	145,887	143,000
– variable rate	4.97	139,709	257,405	41,811	438,925	410,680
		469,292	257,405	41,811	768,508	737,376

7. FINANCIAL INSTRUMENTS (continued)

7c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

8. REVENUE

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

	2011	2010
	RMB'000	RMB'000
Revenue from the sales of:		
Double-sided Machine Finished ("MF") tissue paper	**667,347**	625,483
Single-sided MF tissue paper	**385,683**	372,893
Copy paper	**189,353**	113,300
Other products	**185,852**	112,621
	1,428,235	1,224,297

9. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company, 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.

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

- Double-sided MF tissue paper - manufacturing and trading of double-sided MF tissue paper;
- Single-sided MF tissue paper - manufacturing and trading of single-sided MF tissue paper;
- Copy paper - manufacturing and trading of copy paper;
- Other products - manufacturing and trading of paper towels and ivory boards.

9. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Double-sided MF tissue paper	**667,347**	625,483	**212,914**	214,690
Single-sided MF tissue paper	**385,683**	372,893	**127,185**	128,111
Copy paper	**189,353**	113,300	**55,457**	36,240
Other products	**185,852**	112,621	**27,387**	22,045
	1,428,235	1,224,297	**422,943**	401,086
Other income and other gains and losses			**(4,728)**	(5,811)
Selling and distribution expenses			**(8,007)**	(5,722)
Administrative expenses			**(62,578)**	(51,498)
Finance costs			**(20,281)**	(22,271)
Other expenses			**(8,092)**	(20,952)
Profit before tax			**319,257**	294,832

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 Chief Executive Officer for the purposes of resources allocation and performance assessment.

9. SEGMENT INFORMATION (continued)

(c) Segment assets

	2011 RMB'000	2010 RMB'000
Double-sided MF tissue paper	**438,019**	277,202
Single-sided MF tissue paper	**92,086**	102,319
Copy paper	**133,760**	31,153
Other products	**83,784**	69,996
Total segment assets	**747,649**	480,670
Unallocated		
– Property, plant and equipment	**641,314**	540,012
– Prepaid lease payments	**281,069**	259,332
– Deposit paid for acquisition of property, plant and equipment	**177,754**	108,540
– Deposit paid for acquisition of land use right	**60,683**	22,155
– Inventories	**204,693**	131,754
– Trade and other receivables	**307,780**	264,329
– Pledged bank deposits	**4,857**	1,855
– Bank balances and cash	**98,121**	463,634
Consolidated assets	**2,523,920**	2,272,281

Segment assets include certain property, plant and equipment and inventories 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.

9. SEGMENT INFORMATION (continued)

(e) Other segment information

	Double-sided MF tissue paper RMB'000	Single-sided MF tissue paper RMB'000	Copy paper 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 2011						
Addition to property, plant and equipment prepaid lease payments	**99,727**	**391**	**10,059**	**49,756**	**270,862**	**430,795**
Depreciation and amortisation	**15,753**	**4,531**	**5,150**	**3,396**	**21,058**	**49,888**
Loss on disposal of property, plant and equipment	**—**	**—**	**—**	**—**	**5,234**	**5,234**
Year ended 31 December 2010						
Addition to property, plant and equipment prepaid lease payments	44,967	16,343	—	35,092	298,882	395,284
Depreciation and amortisation	11,472	3,756	1,894	2,028	18,033	37,183
Loss on disposal of property, plant and equipment	—	—	—	—	502	502

(f) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). Nearly all non-current assets of the Group are located in the PRC except for insignificant non-current assets (such as office equipment in Hong Kong office and certain furniture in staff quarter) are located in Hong Kong.

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

(g) Information about major customers

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

10. OTHER INCOME AND OTHER GAINS AND LOSSES

	2011	2010
	RMB'000	RMB'000
Bank interest income	941	1,375
Loss on disposal of property, plant and equipment	(5,234)	(502)
Net foreign exchange losses	(2,963)	(9,849)
Government grants (note)	1,090	3,680
Gross rental income from investment properties	—	656
Less: direct operating expenses from investment properties	—	(228)
Others	1,438	(943)
	(4,728)	(5,811)

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC (i) for developing innovative production technology and maintaining a good reputation in the business community in 2010 and 2011 and (ii) as an award for the successful listing of the Company on the Stock Exchange in 2010. 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.

11. FINANCE COSTS

	2011	2010
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	31,057	27,863
Less: Amounts capitalised	(10,776)	(5,592)
	20,281	22,271

During the year ended 31 December 2011, the borrowing costs RMB10,776,000 (2010: RMB5,592,000) capitalised are attributable to funds borrowed specifically for the purpose of constructing particular qualifying assets.

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2011	2010
	RMB'000	RMB'000
Employee benefits expenses (including directors):		
Salaries and other benefits	58,830	37,442
Retirement benefits scheme contributions	2,030	1,198
	60,860	38,640
Depreciation of property, plant and equipment	44,066	31,206
Depreciation of investment properties	—	228
Release of prepaid lease payments	5,822	5,749
Total depreciation and amortisation expenses	49,888	37,183
Auditors' remuneration	2,250	2,909
(Reversal of overprovision of) listing expenses (included in other expenses) (Note)	(3,092)	20,952
Research and development cost recognised as an expense (included in other expenses)	11,184	—
Cost of inventories recognised as expenses	1,005,292	823,211

Note: The amount represents professional fees and other expenses related to the listing of the shares of the Company on the Stock Exchange. Transaction costs are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to issue of shares that otherwise would have been avoided. IAS 32 "Financial Instruments: Presentation" requires transaction costs that relate jointly to more than one transaction to be allocated to those transactions using a basis of allocation that is rational and consistent with similar transaction. Other listing expenses are recognised as an expense in profit or loss.

During the year ended 31 December 2010, there was a reversal of allowance for obsolete raw materials of RMB179,000 recognised because of subsequent usage and included in cost of sales.

13. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Income tax expense:		
Charge for the year	**43,290**	43,520
Overprovision in prior year	**—**	(5,237)
	43,290	38,283

The Company and Xi Yuan BVI were incorporated in the Cayman Islands and British Virgin Islands, respectively, and are not subject to income tax.

Sunwell Trading (HK) Company Limited ("Sunwell") was incorporated in Hong Kong and has 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.

Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"), Xiyuan Paper Co., Ltd. ("Xiyuan") and Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang") (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.

Youlanfa obtained a high and new technology enterprise certificate during the year ended 31 December 2010 and was entitled to a preferential tax rate of 15% for three year period from 2009 to 2011, subject to annual review by the relevant tax authority. For the year ended 31 December 2010, an overprovision of approximately RMB5,237,000 of income tax for 2009 was credited in profit and loss.

Pursuant to the relevant laws and regulations in the PRC, Xiyuan and Huaxiang are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years. Years 2008 and 2009 were the exemption years, and years 2010 to 2012 are subject to 50% reduced tax rate of 12.5%.

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

	2011 RMB'000	2010 RMB'000
Profit before tax	**319,257**	294,832
Tax at the PRC statutory EIT rate of 25%	**79,814**	73,708
Effect of tax exemptions and tax concession	**(39,677)**	(39,269)
Overprovision in prior year	**—**	(5,237)
Tax effect of expenses not deductible for tax purpose	**3,500**	8,473
Others	**(347)**	608
	43,290	38,283

13. INCOME TAX EXPENSE (continued)

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB820,468,000 at 31 December 2011 (2010: RMB537,450,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Other than above, the Group has no significant provided or unprovided deferred tax at the end of the reporting periods.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid to the directors of the Company are as follows:

	2011 RMB'000	2010 RMB'000
Directors' emoluments:		
- salaries and other benefits	2,953	2,268
- retirement benefit schemes contributions	47	38
	3,000	2,306

Year ended 31 December 2011

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
Mr. Ke	1,281	—	—	—	14	1,295
Mr. Ke Jixiong	1,038	—	—	—	14	1,052
Mr. Cao Xu	133	—	—	—	10	143
Mr. Zhang Guoduan	133	—	—	—	9	142
Mr. Paul Steven Wolansky	20	—	—	—	—	20
Prof. Zhang Daopei	100	—	—	—	—	100
Prof. Chen Lihui	99	—	—	—	—	99
Mr. Chow Kwok Wai	149	—	—	—	—	149
	2,953	—	—	—	47	3,000

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Year ended 31 December 2010

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Retirement benefit schemes contributions RMB'000	Total RMB'000
Mr. Ke	1,043	—	—	—	13	1,056
Mr. Ke Jixiong	767	—	—	—	13	780
Mr. Cao Xu	106	—	—	—	6	112
Mr. Zhang Guoduan	106	—	—	—	6	112
Mr. Paul Steven Wolansky	31	—	—	—	—	31
Prof. Zhang Daopei	61	—	—	—	—	61
Prof. Chen Lihui	61	—	—	—	—	61
Mr. Chow Kwok Wai	93	—	—	—	—	93
	2,268	—	—	—	38	2,306

For the years ended 31 December 2011 and 2010, no director waived or agreed to waive any emoluments and no incentive was paid to any directors as an induction to join the Company or as compensation for loss of office.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2010: three) were directors of the Company whose emoluments are included in the disclosures above for the year ended 31 December 2011. The emoluments of the remaining three (2010: two) individuals for the year ended 31 December 2011, were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**1,763**	1,988
Retirement benefit schemes contributions	**27**	26
	1,790	2,014

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

Their emoluments were within the following bands:

	2011 No. of employees	2010 No. of employees
HK$ nil to HK$1,000,000 (equivalent to RMB nil to RMB 812,000)	2	1
HK$1,500,001 to HK$2,000,000 (equivalent to RMB 1,218,000 to RMB 1,624,000)	1	—
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,624,001 to RMB2,030,000)	—	1

No emoluments have been paid to these individuals as an inducements to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2011 and 2010.

15. DIVIDENDS

The final dividend of HK6.8 cents per share in total HK$68,000,000 (approximately amounted to RMB55,200,000) in respect of the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

No dividend was paid or proposed for the year ended 31 December 2010.

16. EARNINGS PER SHARE - BASIC

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

	2011 RMB'000	2010 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	275,967	256,549

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,000,000,000	900,000,000

For the year ended 31 December 2010, the weighted average number of ordinary shares has been adjusted retrospectively for (i) the 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and (ii) 749,990,000 shares issued pursuant to the capitalisation issue. In addition, the effect of 250,000,000 shares issued under public offering as more fully described in note 25 has also been included.

No diluted earnings per share are presented as there were no potential ordinary shares outstanding during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Properties under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2010	267,310	341,323	5,281	4,291	74,430	692,635
Additions	—	4,301	2,380	1,780	386,823	395,284
Transfer	64,241	90,502	—	—	(154,743)	—
Reclassified from investment properties (note 19)	20,870	—	—	—	—	20,870
Disposals/write off	(578)	(30)	(44)	(328)	—	(980)
At 31 December 2010 and 1 January 2011	351,843	436,096	7,617	5,743	306,510	1,107,809
Additions	785	12,961	770	918	387,802	403,236
Transfer	235,582	160,032	—	—	(395,614)	—
Disposals/write off	(9,733)	(20)	(129)	(194)	—	(10,076)
At 31 December 2011	578,477	609,069	8,258	6,467	298,698	1,500,969
DEPRECIATION						
At 1 January 2010	(23,444)	(45,002)	(1,861)	(682)	—	(70,989)
Provided for the year	(9,661)	(19,798)	(1,205)	(542)	—	(31,206)
Disposals/write off	74	19	39	194	—	326
At 31 December 2010 and 1 January 2011	(33,031)	(64,781)	(3,027)	(1,030)	—	(101,869)
Provided for the year	(13,817)	(28,014)	(1,574)	(661)	—	(44,066)
Disposals/write off	699	13	112	114	—	938
At 31 December 2011	(46,149)	(92,782)	(4,489)	(1,577)	—	(144,997)
CARRYING VALUES						
At 31 December 2011	532,328	516,287	3,769	4,890	298,698	1,355,972
At 31 December 2010	318,812	371,315	4,590	4,713	306,510	1,005,940

The above items of property, plant and equipment (other than properties under construction) are depreciated on straight-line basis at the following rates:

Buildings	30 years
Plant and machinery	10 - 20 years
Office equipment	5 years
Motor vehicles	5 years

Buildings are located on land with land use rights in the PRC with lease term of 50 years.

18. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	**281,069**	259,332
Analysed for reporting purpose as:		
– Current assets	**5,800**	5,770
– Non-current assets	**275,269**	253,562
	281,069	259,332

The Group's prepaid lease payments amounts represent the prepayments for land use rights situated in the PRC. The leasehold lands have lease term of 50 years.

19. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2010	30,422
Reclassified as property, plant and equipment (note 17)	(30,422)
At 31 December 2010, 1 January 2011 and 31 December 2011	—
ACCUMULATED DEPRECIATION	
At 1 January 2010	(9,324)
Provided for the year	(228)
Reclassified as property, plant and equipment (note 17)	9,552
At 31 December 2010, 1 January 2011 and 31 December 2011	—
CARRYING VALUES	
At 31 December 2011	—
At 31 December 2010	—

Upon the expiry of the rental contract with Fujian Youlanfa Leathercover Paper Co., Ltd. ("YLF Leathercover"), a related party of the Group, in March 2010, the above properties is occupied by the Group for its own use and the respective carrying value is transferred to property, plant and equipment.

The above investment properties were depreciated on a straight-line basis over 30 years.

20. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	204,693	131,755
Work in progress	228	36
Finished goods	32,763	14,705
	237,684	146,496

21. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	RMB'000
Trade receivables	281,212	244,451
Prepayments to suppliers	6,985	5,105
Other prepayments	1,265	1,407
Other tax recoverable	18,227	13,234
Others	91	132
	307,780	264,329

The Group allows an average credit period of 60 days to its trade customers. The ageing of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	2011	2010
	RMB'000	RMB'000
0 to 30 days	135,612	138,767
31 to 60 days	119,431	105,684
61 to 90 days	26,169	—
	281,212	244,451

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.

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB26,169,000, ageing 61 to 90 days, (2010: Nil) which are past due as at year end date for which the Group has not provided for impairment loss. No impairment is considered necessary for this balance because it has been fully settled after the end of the reporting period. The Group does not hold any collateral over these balances.

It is the Group's policy to provide fully for any receivables aged over two years because they are considered not recoverable. As at 31 December 2011 and 2010, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

22. PLEDGED BANK DEPOSITS/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. Pledged bank deposits represent deposits pledged to banks to secure short term banking facilities granted to the Group.

Bank balances of the Group carry market interest rates of range from 0.001% to 0.50% (2010: 0.001% to 1.89%) per annum as at 31 December 2011.

Pledged bank deposits of the Group carry market interest rates from 0.36% to 0.50% (2010: 0.36% to 3.78%) per annum as at 31 December 2011.

23. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	139,630	144,489
Notes payables	19,103	5,105
	158,733	149,594
Other payables for acquisition of plant and equipment	18,057	13,956
Other tax payables	7,737	358
Accrued staff costs	5,152	3,594
Accrued employee social security fund	7,134	9,790
Accrued electricity expenses	7,732	6,814
Accrued listing expenses	—	20,146
Other accrued expenses	6,030	5,177
	210,575	209,429

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

	2011 RMB'000	2010 RMB'000
Within 30 days	87,010	99,142
31 to 90 days	52,620	45,347
	139,630	144,489

23. TRADE AND OTHER PAYABLES (continued)

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

	2011	2010
	RMB'000	RMB'000
Within 30 days	**6,842**	—
31 to 90 days	**—**	5,105
91 to 120 days	**12,261**	—
	19,103	5,105

Trade payables and notes payables principally comprise amounts outstanding for 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.

24. BANK BORROWINGS

	2011	2010
	RMB'000	RMB'000
Secured bank borrowings	**502,120**	443,680
Unsecured bank borrowings	**30,000**	110,000
	532,120	553,680
The amount is repayable as follows:		
Within one year	**452,120**	264,560
More than one year, but not exceeding two years	**45,000**	249,120
More than two years, but not exceeding five years	**35,000**	40,000
	532,120	553,680
Less: Amounts due within one year shown under current liabilities	**(452,120)**	(264,560)
	80,000	289,120
Analysed as:		
Fixed-rate borrowings	**193,000**	143,000
Variable-rate borrowings	**339,120**	410,680
	532,120	553,680

24. BANK BORROWINGS (continued)

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

	2011	2010
Effective interest rate:		
Fixed-rate borrowings	**6.06% to 7.87%**	4.92% to 5.04%
Variable-rate borrowings	**90% of Benchmark Rate to Benchmark Rate**	90% of Benchmark Rate to Benchmark Rate

The Group's bank borrowings are denominated in RMB. Interest of variable-rate borrowings is repriced every month.

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

	2011	2010
	RMB'000	RMB'000
Type A	**482,120**	443,680
Type B	**50,000**	110,000
	532,120	553,680

Type A: Borrowings are secured by assets of the Group (note).

Type B: Borrowings are cross-guaranteed among subsidiaries of the Company.

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

	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**460,144**	470,847
Land use rights	**262,927**	228,396
	723,071	699,243

25. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2010	3,800,000	380,000
Increase in authorised share capital (note ii)	9,996,200,000	999,620,000
At 31 December 2010, 1 January 2011 and 31 December 2011	10,000,000,000	1,000,000,000
Issued and fully paid:		
At 1 January 2010	1	1
Issued on 14 January 2010 (note i)	9,999	999
Capitalisation issue (note ii)	749,990,000	74,999,000
Issue of shares pursuant to the global offering (note iii)	250,000,000	25,000,000
At 31 December 2010, 1 January 2011 and 31 December 2011	1,000,000,000	100,000,000

	2011	2010
	RMB'000	RMB'000
Presented in RMB Share capital	87,680	87,680

(i) On 14 January 2010, as part of the reorganisation, the Company, Mr. Ke and Smart Port Holdings Limited ("Smart Port"), the immediate holding company, entered into a share transfer agreement, pursuant to which Smart Port transferred its entire shareholding in Xi Yuan BVI to the Company in consideration of the Company issuing 9,999 ordinary shares, amounting to HK$999 (approximately RMB877), to Smart Port credited as fully paid.

(ii) Pursuant to written resolutions of all the shareholders passed on 30 April 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 which rank pari passu in all respects with the shares then in issue. In addition, the directors were authorised, and resolved, to capitalise HK$74,999,000 (approximately RMB65,759,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 749,990,000 shares.

(iii) On 27 May 2010, 250,000,000 shares of HK$0.10 each of the Company, amounting to HK$25,000,000 (approximately RMB21,920,000), were then issued at HK$2.58 per share by way of placing and public offering and the Company's shares were listed on the Main Board of the Stock Exchange.

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

26. 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$1,000 (approximately RMB819) 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 RMB2,030,000 (2010: RMB1,198,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2011.

27. RELATED PARTY DISCLOSURES

(a) Name and relationship with related party are as follows:

Name	Relationships
福建優蘭發塗革紙製品有限公司 YLF Leathercover	YLF Leathercover was a company ultimately controlled by Mr. Ke Jixiong, an Executive Director and Chief Executive Officer of the Company.

(b) Related party transactions

For the year ended 31 December 2010, the Group had the receipt of rental income of RMB656,000 and the purchase of goods of RMB6,035,000 from YLF Leathercover.

All related party transactions were discontinued after the listing of the shares of the Company on the Stock Exchange on 27 May 2010. There are no related party transactions for the year ended 31 December 2011.

(c) Compensation of key management personnel

The details of remuneration of directors and other members of key management paid during the year ended 31 December 2011 was as follows:

	2011	2010
	RMB'000	RMB'000
Short-term benefits	**5,089**	4,668
Post employment benefits	**123**	116
	5,212	4,784

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

28. MAJOR NON-CASH TRANSACTIONS

For the year ended 31 December 2011

There was no major non-cash transaction for the year ended 31 December 2011.

For the year ended 31 December 2010

For the year ended 31 December 2010, amount due to immediate holding company of RMB139,986,000 was waived. Such amount is recorded in capital reserve as deemed contribution from a holding company.

Pursuant to the agreement dated 1 September 2008, Smart Port agreed to transfer 1.25% of the total shares ("Transferred Shares") of the Company outstanding before the initial public offering ("IPO") of the Company to the consulting company as IPO consulting fee upon (i) the successful IPO of the Company and (ii) the consulting company continued to provide consulting service to the Group for a six-month period after IPO. According to the valuation conducted by an independent valuer, the fair value of the Transferred Shares at the agreement date, 1 September 2008, was approximately RMB5,690,000. The fair value of the Transferred Shares was estimated based on a business valuation of the business carried at by Smart Port and its subsidiaries using the income approach. In determining the fair value of the Transferred Shares, the following major assumptions were made:

Weighted average cost of capital	15.29%
Terminal growth rate	4%

During the year ended 31 December 2010, approximately RMB4,268,000 were charged to profit or loss as expenses and approximately RMB1,422,000 were capitalised to share premium as share issue expenses.

29. OPERATING LEASE

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise and staff quarter during the year ended 31 December 2011 were RMB673,000 (2010: RMB443,000).

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:

	2011	2010
	RMB'000	RMB'000
Within one year	**154**	581
In the second to fifth year inclusive	**—**	194
	154	775

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

The Group as lessor

Property rental income earned during the year ended 31 December 2010 was RMB656,000. All of the lease expired in March 2010.

30. CAPITAL COMMITMENTS

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	357,917	343,179
Capital expenditure authorised but not contracted for in respect of :		
Property, plant and equipment	—	54,810
Land use rights	—	67,000
	—	121,810

31. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2011 and 2010 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of nominal value of issued capital held by the Company 2011	2010	Principal activities
Xi Yuan BVI	British Virgin Islands	Hong Kong	1 ordinary share of US$1	100% (directly)	100% (directly)	Investment holding
Sunwell	Hong Kong	Hong Kong	10,000,000 ordinary shares of HK$1 each	100% (indirectly)	100% (indirectly)	Investment holding
Huaxiang*	PRC	PRC	RMB379,334,612	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper and other products
Xiyuan*	PRC	PRC	HK$300,000,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper and copy paper
Youlanfa*	PRC	PRC	RMB128,880,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper, copy paper and other products

* These subsidiaries are wholly foreign owned enterprises.

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

32. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2011	2010
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**58,309**	29,810
Amount due from a subsidiary	**437,688**	467,003
	495,997	496,813
CURRENT ASSETS		
Prepayment	**169**	147
Bank balances and cash	**29,305**	52,247
	29,474	52,394
CURRENT LIABILITY		
Other payables and accrued expenses	**1,702**	22,834
NET CURRENT ASSETS	**27,772**	29,560
NET ASSETS	**523,769**	526,373
CAPITAL AND RESERVES		
Share capital (Note 25)	**87,680**	87,680
Reserves	**436,089**	438,693
TOTAL EQUITY	**523,769**	526,373

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	267,586	562,019	724,793	1,224,297	**1,428,235**
Profit before tax	57,495	145,684	183,770	294,832	**319,257**
Income tax expense	(15,223)	(13,041)	(13,093)	(38,283)	**(43,290)**
Profit and total comprehensive income for the year	42,272	132,643	170,677	256,549	**275,967**
Profit and total comprehensive income attributable to owners of the Company	40,282	126,396	165,941	256,549	**275,967**

	As at 31 December				
	2007	2008	2009	2010	**2011**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	731,856	918,977	1,305,329	2,272,281	**2,523,920**
Total liabilities	(570,342)	(624,820)	(750,482)	(776,061)	**(751,733)**
	161,514	294,157	554,847	1,496,220	**1,772,187**
Equity attributable to owners of the Company	148,410	274,806	554,847	1,496,220	**1,772,187**
Minority interests	13,104	19,351	—	—	**—**
	161,514	294,157	554,847	1,496,220	**1,772,187**

Note: The Company was incorporated in the Cayman Islands on 12 October 2009 and became the holding company of the Group on 14 January 2010. The results and assets and liabilities for 2007, 2008 and 2009 have been prepared on a combined basis as if the current group structure had been in existence throughout those years, of which the result has been consolidated since 14 January 2010, and have been extracted from the Company's prospectus dated 14 May 2010.