正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Stock Code : 3363

Annual Report 2011

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Corporate Information

Board of Directors

Executive Directors
Mr. Hu Zheng *(Chairman)*
Mr. Hu Hanchao
Mr. Hu Hancheng

Non-executive Director
Mr. Hu Hanxiang

Independent Non-Executive Directors
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Mr. Zhu Hongwei

Company Secretary

Ms. Chan Yin Wah

Audit Committee

Mr. Chung Kwok Mo John *(Chairman)*
Mr. Wu Youjun
Mr. Zhu Hongwei

Remuneration Committee

Mr. Chung Kwok Mo John *(Chairman)*
Mr. Wu Youjun
Mr. Zhu Hongwei
Mr. Hu Zheng

Nomination Committee

Mr. Hu Zheng *(Chairman)*
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Mr. Zhu Hongwei

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Hong Kong

Compliance Adviser

CMB International Capital Limited
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Central
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Authorized Representatives

Mr. Hu Zheng
Ms. Chan Yin Wah

Legal Adviser

As to Hong Kong law
Chiu & Partners

As to Bermuda law
Conyers Dill & Pearman

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Share Registrar and Transfer Office in Bermuda

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

Principal Bankers

Bank of China
Industrial and Commercial Bank of China
Industrial Bank Company Limited

Share Information

Stock code: 3363

Company's Website Address

http://www.zhengye-cn.com

Chairman's Statement

On behalf of the board of directors (the "Board") of Zhengye International Holdings Company Limited (the "Company", together with its subsidiaries, the "Group"), I would like to express our appreciation for your support and trust in the Company.

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Zhengye International Holdings Company Limited (the "Company" and its subsidiaries, our "Group" or the "Group") for the year ended 31 December 2011 (the "year under review") to our shareholders.

2011 was a memorable year in the history and development of the Group. The company's successful listing on the Main Board of the Stock Exchange of Hong Kong in 3 June 2011 marked a new milestone in the development of the company and represented recognition for the Group's strengths in the manufacturing of corrugated medium paper and paper-based packaging products in China. Furthermore, the group not only acquired sufficient capital but also gained confidence for its further growth in the future. The successful listing has enabled the Group to receive greater recognition, enhance its corporate governance and management practices, establish a sound corporate operating system and solid foundation for business growth, and provided the Group with a platform for future development.

Results of the Year

The Group recorded a turnover of approximately RMB1,163,803,000 for the year ended 31 December 2011, representing an increase of 10.49% as compared to the same period last year, which was a historical record of the Group's turnover. The gross profit margin slightly increased to 18.50%, which was almost at the same level of 17.76% for the same period last year. The profit of the Group amounted to approximately RMB46,440,000. Basic earnings per Share was RMB0.10. The Directors have proposed to pay a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share, which will constitute a total dividend of RMB5.56 cents per Share.

Chairman's Statement (Continued)

Business Review

During the current financial year, with the slow recovery of the global economy and the influence of the Japanese earthquake and the European debt crisis, the export of China decreased, which in turn reduced the market demands of paper and paper-based packaging products; at the same time, the costs of raw materials, wage and finance raised, bringing some negative impacts to the Company's operation. With the collaborative efforts from the management team, the Group proactively expanded the business, put efforts to control the costs and conduct research and development activities, and launched new products to participate in the market competition under the difficult environment of market economy, which enabled the Group to obtain a turnover growth and the gross profit margin stayed almost at the same level compared to last year. As the Group's planned business expansion and the research and development activities increased the competitiveness of the products, the Group's selling expenses, administrative expenses and research and development cost for the year increased significantly as compared to last year, which in turn reduced the profit of the Group. The competitiveness of our products in the future, however, was increased and this allowed the Group to maintain a sustainable growth in its business. The Group believes that, as the recovery of the global economy, the industrial demand of the paper and paper-based packaging will develop continuously in the future, and we will capitalize on this opportunity and seek to achieve sustainable growth of our business.

Steady Development

The Group has capitalized on the development opportunity to newly build plants in Wuhan and Shijiazhuang besides the scheduled plants investments in Zhengzhou and Hefei, so as to support the paper-based packaging business of the large-scale home appliances corporations. Currently, the Company has established the structure of owning 10 corporations in waste paper recycling, paper production, paper-based packaging production in China. As the national cross-regional capacity expansion plan succeeds as scheduled, this achievement will certainly promote the Group to obtain a stable growth of sales and profits.

4 new corrugated cartons and 5 honeycomb paper-based products production lines of the new plants in Zhengzhou, Hefei, Wuhan and Shijiazhuang will be installed and put into production successively in 2012, which will increase the annual designed capacities of the Group's corrugated cartons of 117.17% to 664,920,000 s.q.m., compared to the current capacities of 306,180,000 s.q.m., and increase the annual designed capacities of the honeycomb paper-based products of 198.40% to 23,360,000 s.q.m., compared to the current capacities of 7,830,000 s.q.m.. The completion and commission of the 9 production lines will further expand the scale of the Group's paper-based packaging capacities.

In order to increase the competitiveness of the Group's corrugated medium paper products, we committed ourselves in the research and development of corrugated medium paper with lightweight and high intensity. The fourth high intensity corrugated medium paper machine with an annual capacities of 80,000 tons which were scheduled to put into production in the second half of 2011, was delayed to commission in July 2012, so as to make our invested facilities more suitable to produce corrugated medium papers with lightweight and high intensity. After the commission of the paper machine, the Group's annual designed capacities of the corrugated medium paper will increase to 300,000 tons, representing an increase of 35% compared to the current capacities. The new paper machine will be used to produce corrugated medium paper with lightweight and high intensity, which will diversify the categories of the Company's products after commission, to satisfy different demands of more customers, and thus bring more revenues and profits for the Group's corrugated medium paper sales.

Research & Development

In order to enhance the competitiveness of the products of the Group, the Group is committed to innovate for development purpose and energetically carries out research and development. In the year, the Group totally obtained 14 patents in papermaking and paper-based packaging.

Through leveraging the existing advantages of technical talents and research and development in papermaking, and increasing the research and development of corrugated medium paper with lightweight and high intensity, the Group successfully developed 65g/m^2 corrugated medium paper during the year. This type of corrugated medium paper was recognized and affirmed by the expert team in paper making industry, thus effectively helped develop new customers, met the different needs of customers and enhanced the market competitiveness. In the future, the Group will still commit ourselves in the research and development of corrugated medium paper with super lightweight and high intensity and further reducing the production costs of paper-based packaging products, so as to enlarge the future profitability of the Group.

The Group will further improve the ability of research, development and design in paper-based packaging, and consistently provide integrative packaging resolutions to customers. Meanwhile, the Group makes use of the special funds supported by the government to build a higher technology platform. Our Group strives to keep the advantages in the keen market competition by actively carrying out the university-industry cooperation, increasing the investment in technical innovation and research and development, and constantly implementing the research and utilization of new processes and skills.

Outlook & Prospects

Our Group strives to become a leading manufacturer of paper-based packaging products and corrugated medium paper in the PRC. The Group will keep utilizing our years of accumulated advantages in production management, marketing and technology research and development, to proactively expand the business, and strengthen our business growth through internal growth, selective acquisitions and partnerships, so as to achieve a new milestone.

The Board believes 2012 would be a challenge year. The Group would have a bearish view on the market for the coming year and keep operating in a conservative and cautious manner. It is our conviction that successful capture of market opportunities and improvement in areas such as sales, customer base, and corporate operations have to be achieved by the expansion of economies of scale and continual optimization of its resources, and further fueled by improving market conditions and accelerating market consolidation. A journey of a thousand miles begins with a single step.

Appreciation

The Board would like to thank our customers, partners, suppliers and shareholders for their support to the Group and extend its appreciation to all our staff for their dedication and contributions throughout the year. Leveraging on our dedicated senior management and professional team, the Group will continue to promote its business development to create higher returns for shareholders.

Hu Zheng
Chairman

Hong Kong, 23 March 2012

Management Discussion and Analysis

Looking forward, the Group will endeavor to adopt prudent strategy to maintain stable growth of its paper-based packaging business.

Management Discussion and Analysis

Business Review

Turnover

The Group is a manufacturer of paper-based packaging products and corrugated medium paper in PRC. The total turnover of the Group amounted to RMB1,163,803,000 for the year ended 31 December 2011 ("2011"), representing an increase of 10.49% as compared with RMB1,053,302,000 for the year ended 31 December 2010 ("2010"), which is a historical record of the Group's total revenue, it related to the expansion of the paper-based packaging products of the Group.

Sales and gross profit margin of different business segments are listed below:

	2011			2010		
	RMB'000	**Gross profit margin (%)**	**Percentage of total revenue (%)**	RMB'000	Gross profit margin (%)	Percentage of total revenue (%)
Paper-based packaging products	**643,911**	**21.64**	**55.33**	565,942	18.30	53.73
Corrugated medium paper	**519,892**	**14.61**	**44.67**	487,360	17.13	46.27
Total	**1,163,803**	**18.50**	**100.00**	1,053,302	17.76	100.00

Paper-based packaging products

The turnover of the Group's paper-based packaging products increased from RMB565,942,000 in 2010 to RMB643,911,000 in 2011, representing an increase of 13.78%. The turnover of honeycomb paper products thereof increased from RMB7,892,000 in 2010 to RMB51,522,000 in this year, representing an increase of RMB43,630,000.

Corrugated medium paper

The turnover of corrugated medium paper increased from RMB487,360,000 in 2010 to RMB519,892,000 in 2011, representing an increase of 6.68%, which was mainly as a result of the increase in the average selling price.

Management Discussion and Analysis (Continued)

Production facilities

The Group has a complete industrial chain that covers waste paper recycling, corrugated medium paper production and paper-based packaging product processing and other processes. As in 2011, the Group owned and operated 6 corrugated case, 2 honeycomb paper products and 3 paper production lines. The annual production status was as below:

Paper-based packaging products

Production line	2011 Design capacity ('000 sqm)	2011 Actual capacity ('000 sqm)	2011 Utilization rate (%)	2010 Design capacity ('000 sqm)	2010 Actual capacity ('000 sqm)	2010 Utilization rate (%)
No.1 1.6m wide corrugated case production line	**38,880**	**31,988**	**82.27**	38,880	31,309	80.53
No.2 2.2m wide corrugated case production line	**71,280**	**44,395**	**62.28**	71,280	52,836	74.12
No.3 1.6m wide corrugated case production line	**38,880**	**27,987**	**71.98**	38,880	29,160	75.00
No.4 1.6m wide corrugated case production line	**38,880**	**28,974**	**74.52**	24,494*	19,844	81.02
No.5 1.8m wide corrugated case production line	**72,900**	**45,734**	**62.74**	72,900	38,638	53.00
No.6 1.4m wide corrugated case production line	**45,360**	**12,450**	**27.45**	756*	416	55.03
No.7 1.6m wide honeycomb paper product production line	**4,320**	**3,328**	**77.04**	115*	72	62.61
No.8 1.3m wide honeycomb paper product production line	**3,510**	**1,639**	**46.70**	94*	62	65.96

* Nos. 4, 6, 7 and 8 production line commenced the operations during the year 2010.

Corrugated medium paper

Production line	2011 Planned operation (hours)	2011 Actual operation (hours)	2011 Effective rate (%)	2010 Planned operation (hours)	2010 Actual operation (hours)	2010 Effective rate (%)
No.1 paper machine	**7,977**	**7,711**	**96.67**	7,538	7,446	98.78
No.2 paper machine	**7,620**	**6,961**	**91.35**	8,213	7,604	92.59
No.3 paper machine	**7,562**	**7,309**	**96.65**	7,988	7,332	91.79

Prospect

With the slowdown in the PRC economy, all kinds of costs would possibly increase. The Group is readily prepared for the challenges. 4 newly built plants of the Group (in Zhengzhou, Hefei, Wuhan and Shijiazhuang) will be put into production successively, which the Board believes would contribute greatly to the revenues and gross profits of the Group. We also expected to continuously increase the production capacity of corrugated medium paper under the existing debt levels, and fully leverage the Group's papermaking technology improvement, and promote the growth of the Group's corrugated medium paper business.

As the business grows, the Group should also strictly control the production costs and expenditures, and strengthen the Group's capital structure. The measure of investment costs control would provide the Group with sufficient operating cash flow to cope with every eventuality in this gloomy economy environment. The Group would continue our efforts to develop new products, enhance the competitiveness of the Company so as to maximize the returns to shareholders.

Cost of sales

The Group's selling expenses increased from RMB866,267,000 in 2010 to RMB948,474,000, representing a growth of 9.49%, which is in line with the growth of the Group's turnover in 2011.

Paper-based packaging products

As for the paper-based packaging products, the selling expenses increased by RMB42,170,000 or 9.12% from RMB462,368,000 in 2010 to RMB504,538,000 in 2011.

Corrugated medium paper

As for the corrugated medium paper, the selling expenses increased by RMB40,037,000 or 9.91% from RMB403,899,000 in 2010 to RMB443,936,000 in 2011.

Gross profit and gross profit margin

Due to above mentioned factors, the gross profit increased by RMB28,294,000 or 15.13% from RMB187,035,000 in 2010 to RMB215,329,000 in 2011. The overall gross profit margin of the Group was 18.50% compared with 17.76% in 2010.

The gross profit margin of paper-based packaging products increased from 18.30% in 2010 to 21.64% in 2011, representing as increase of 18.25%, which was mainly attributable to the efforts in the adjustment of product structure and expansion in sales of air-conditioner paper packaging and other product with high gross profit margin.

The gross profit margin of corrugated medium paper decreased by 2.52% from 17.13% in 2010 to 14.61% in 2011. The decrease was mainly due to the fact that the price of raw materials kept rising till the end of the year before dropping a little and the increase of selling price failed to transfer the rising cost completely.

Other income, other gains and losses

Other income, other gains and losses mainly included income from interest RMB1,652,000 (2010: RMB1,448,000), government subsidies RMB4,851,000 (2010: RMB2,211,000) and net exchange gain RMB1,406,000 (2010: RMB695,000).

Distribution and selling expenses

Our distribution and selling expenses increased by approximately 43.18% from RMB23,970,000 in 2010 to RMB34,321,000 in 2011, representing about 2.28% and 2.94% of the Group's turnover respectively. The increases were mainly attributable to our business expansion and the increase in our transportation cost during the year.

Administrative and other expenses

The Group's administrative expenses increased by around 40.20% from RMB44,736,000 in 2010 to RMB62,719,000 in 2011, representing about 4.25% and 5.39% of the Group's turnover respectively. The increase was mainly due to our business expansion as planned during the year and the increase in rentals and insurance fees from RMB2,315,000 in 2010 to RMB5,102,000 in 2011. In addition, the increase was also due to the increase of staff costs from RMB27,729,000 in 2010 to RMB33,230,000 in 2011.

Listing expenses

The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 June 2011. The non-recurring listing expense arising thereof was RMB11,926,000. Preliminary expenses related to listing in 2010 were RMB9,986,000.

Finance costs

Finance costs of the Group increased by around 60.86% from RMB17,567,000 in 2010 to RMB28,259,000 in 2011, which was mainly due to the increasing interest rates of borrowings during the year, as well as the increase in bank and other borrowings and finance leases as a result of the Group's business expansion by funding a new production line.

Interest rates of bank borrowings were at variable rates ranging from 6.06% to 7.87% in 2011, compared with 3.41% to 6.12% in 2010.

Research and development costs

Research and development costs of the Group increased by around 123.17% from RMB12,252,000 in 2010 to RMB27,343,000 in 2011. The increase was mainly due to our goal to improve the competitiveness of our products and develop new products on the demand from customers and research on new technology and new process aiming to enhance production efficiency and product quality. In 2011, the Group successfully obtained 14 patents in corrugated medium paper and paper-based packaging.

Income tax expenses

As in 2011, the Group's income tax expense was RMB12,436,000 (2010: RMB16,211,000), accounting 21.12% of the total profit (2010: 16.66%). The decrease in income tax expenses was mainly due to the decrease in profit before tax of the Group.

Profit and total comprehensive incomes

Due to the above factors, the Group's net profit in 2011 was RMB46,440,000, with a decrease of about 42.74% compared with RMB81,110,000 in 2010. The decrease in net profit was mainly due to the increase in cost and expenses as planned for expanding the business of the Group: Compared with 2010, there was a big increase on research and development investment for improving the Group's research and development ability, finance costs, factory lease, salary, other operation and administrative expenses.

Dividends

The Board recommends, subject to shareholders' approval at the forthcoming annual general meeting (the "**AGM**") of the Company to be convened and held on Friday, 1 June 2012, the payment of a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share, which is RMB5.56 cents in total, for the year ended 31 December 2011 (2010: Nil) to those shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2012. The recommended final dividend and the special dividend, if approved at the AGM, will be paid in Hong Kong dollars. The RMB/Hong Kong dollar exchange rate for the final dividend and the special dividend will be set on 1 June 2012 (that is, the date of the AGM) and calculated using the opening indicative counter buying telegraphic transfer rate for RMB of The Hong Kong Association of Banks, which will be published on the websites of the Stock Exchange and the Company together with the poll results of the AGM on Friday, 1 June 2012. The final dividend and the special dividend are expected to be paid on or around Tuesday, 19 June 2012.

The Board had reviewed the latest financial position of the Group and considered the cash position and the capital requirement of the Group. The Board considered that the Group had actively but prudently pursued its business expansion plan and built up paper-based packaging product manufacturing facilities during the year under review. In order to reduce the capital requirements, we tactically adapt our business strategies. We leased properties, arranged for the Group's new manufacturing facilities and acquired the major machineries in the manufacturing facilities by way of finance lease arrangement, instead of building our own manufacturing facilities, which enable the Group to have sufficient working capital and equip itself with better capital strength and financial flexibility to cope with the capital and financial requirements for its business operations. The Board further considered that it would be in the interests of the Company and its shareholders as a whole to declare, subject to the approval of the shareholders at the AGM, the payment of the final dividend and the special dividend as shareholders' return and a token of appreciation of the shareholders' continued support to the Group.

Closure of register of members

The register of members of the Company will be closed from Tuesday, 29 May 2012 to Friday, 1 June 2012 (both days inclusive) for the purpose of determining shareholders of the Company who are entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "**Hong Kong Share Registrar**"), at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Monday, 28 May 2012.

The register of members of the Company will be closed from Thursday, 7 June 2012 to Friday, 8 June 2012 (both days inclusive) for the purpose of determining shareholders of the Company who qualify for the final dividend and the special dividend. In order to qualify for the final dividend and the special dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong Share Registrar for registration by 4:30 p.m. on Wednesday, 6 June 2012.

Current assets and capital resources

Cash flow

As at 31 December 2011, the Group's cash flow net amount was RMB99,220,000. The amounts arising from business activities and financing activities were RMB36,292,000 and RMB161,870,000 respectively, while the cash outflow of investment activities during the period was recorded as RMB98,942,000.

The cash outflow net amounts arising from investment activities were RMB81,462,000 for the payment of purchasing properties, factories and facilities and RMB16,855,000 for the margin deposit for purchasing properties, factories and facilities.

Inventories

The inventories slightly increased to around RMB112,933,000 as at 31 December 2011, compared with about RMB103,801,000 as at 31 December 2010. It was mainly due to an increase in waste paper inventory. In 2011, the inventory turnover days were about 41 days (2010: 40 days) which was at a normal level.

Trade receivables

As at 31 December 2011, the trade receivables amounted to RMB302,287,000 (31 December 2010: RMB289,559,000). The Group granted credit period of 30 to 120 days to our paper-based packaging products customers and credit period of 30 to 75 days to our corrugated medium paper customers. The turnover days for trade receivables were extended to 94 days (2010: 85 days), which was due to the expansion in our paper-based packaging business.

Trade payables

As at 31 December 2011, the trade payables amounted to RMB285,678,000 (31 December 2010: RMB260,905,000). Our Group managed to obtain a credit period of 30 to 120 days from the majority of our suppliers. The turnover days for trade payables were extended to 105 days (2010: 88 days).

Bank and other borrowings

As at 31 December 2011, the balance of the Group's bank borrowings amounted to RMB499,227,000 (31 December 2010: RMB433,919,000). There were no other borrowings in this year (31 December 2010: RMB4,170,000).

As at 31 December 2011, total gearing ratio was about 34.36% (31 December 2010: 38.19%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 78.28%, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' interest (31 December 2010: 140.32%).

Management Discussion and Analysis (Continued)

Pledge of assets

As at 31 December 2011, the Group pledged certain assets with carrying value of RMB605,995,000 as collateral for the Group's borrowing (31 December 2010: RMB493,585,000). Please refer to Note 31 to the Consolidated Financial Statements of the Company for details.

Capital commitments

As at 31 December 2011, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB64,460,000 (31 December 2010: RMB52,013,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as leasing land.

Human resource management

The Group had 3,673 employees as at 31 December 2011. The staff costs amounted to RMB129,087,000 for the year ended 31 December 2011 (for the year ended 31 December 2010: RMB102,590,000).

Our remuneration is determined by reference to the employees' experience, qualification and overall market situation, while the bonus is related to the financial performance of the Group and the individual performance. The Group also undertakes to provide proper trainings and sustainable professional development opportunities for the employees if needed.

Profiles of Directors and Senior Management

Directors

Executive Directors

Mr. Hu Zheng (胡正), aged 49, is currently the vice president of the China Packaging Federation. Within our Group, he is the Chairman, executive Director and one of the founders. Furthermore, Mr. Hu Zheng is the Chairman of the nomination committee and member of the remuneration committee. Mr. Hu Zheng is responsible for overseeing the overall corporate management, operation and development planning and had over 20 years of experience in the paper-making and packaging industries. Prior to founding our Group, Mr. Hu Zheng worked as a technician and as assistant engineer at a then state-owned paper factory since 1983 then he was a director of a PRC paper and packaging products manufacturing factory, responsible for the management of daily operation and strategic planning from 1990 to 2003. In October 1981, Mr. Hu Zheng graduated from Guangdong Foshan Vocational College (廣東佛山職業技術學院) formerly known as Guangdong Foshan Region Agricultural Mechanical College (廣東省佛山地區農業機械化學校) and completed a Master of Business Administration at the Macau University of Science and Technology (澳門科技大學) in August 2001. Mr. Hu Zheng is brother of Mr. Hu Hancheng, Mr. Hu Hanchao, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hancheng (胡漢程), aged 52, is currently the vice president of Zhongshan Association of Packaging Industry. He joined our group in 2003 and has been the legal representative of Zheng Ye Packaging (Zhongshan) Company Limited since December 2007 then he was appointed as an executive Director in March 2011. Mr. Hu Hancheng is also the president of the packaging division of our Group in charge of the management and operation of the packaging division. Prior to joining our Group, Mr. Hu Hancheng was the general manager of a PRC packaging products manufacturing factory from 1997 to 2003 responsible for the overall operational Association of Packaging Industry. In January 1995, Mr. Hu Hancheng completed an economic management program at the Guangdong Polytechnic College (廣東省工程職業技術學院) formerly known as Guangdong Province Adult Technology University (廣東省成人科技大學). Mr. Hu Hancheng is brother of Mr. Hanchao and Mr. Hu Zheng, executive Directors and Mr. Hanxiang, non-executive Director.

Mr. Hu Hanchao (胡漢朝), aged 54, joined our Group in 2003 and he was appointed as a Director in September 2010 then was designated as an executive Director in March 2011. Mr. Hu Hanchao is responsible for the operations management of Zhongshan Yong Fa Paper Company Limited ("Yong Fa Paper") and he has been involved in corporate management for more than 25 years. Prior to joining our Group, Mr. Hu Hanchao was the deputy general manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the overall operational management of the business and before that he was the assistant manager of Xinhua Bookshop from 1985 to 1994. In August 1985, Mr. Hu Hanchao graduated from Zhongshan Municipal Communist Party Cadre School (中山市幹部學校). Mr. Hu Hanchao is brother of Mr. Hu Hancheng and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Non-Executive Directors

Mr. Hu Hanxiang (胡漢祥), aged 57, joined our group in 2004 as a supervisor of Yong Fa Paper and he was appointed as a non-executive Director of the Company in March 2011. Prior to joining our Group, Mr. Hu Hanxiang had worked for the Guangdong Provincial Light Industry Bureau for 20 years and was the department chief of the Personnel Affairs and Education Department of Guangdong Provincial Light Textile Industry Office from 1995 to 2000, responsible for human resources management. In July 1986, Mr. Hu Hanxiang graduated from Guangdong Province Economic Management Bureau College (廣東省經濟管理幹部學院). Mr. Hanxiang is brother of Mr. Hu Hancheng, Mr. Huchao and Mr. Hu Zheng, executive Director.

Profiles of Directors and Senior Management (Continued)

Independent Non-Executive Directors

Mr. Zhu Hangwei (朱宏偉), aged 48, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. He was an independent director of Guangdong Hydropower Engineering Group Company Limited during the period from September 2003 to December 2009. Mr. Zhu was an associate professor of Guangdong Polytechnic Normal University from February 2006 to December 2010 after which he has been appointed as a professor. He has in-depth knowledge in corporate management, having received tertiary education and undertaken faculty and research positions at various universities. Mr. Zhu graduated from Sichuan University (四川大學) with a Bachelor of Science degree in July 1983 and holds a Master of Science degree awarded by Zhejiang University (浙江大學) formerly known as Hangzhou University (杭州大學) in June 1990 and a doctorate degree in corporate management awarded by Zhongnan University of Economics and Law (中南財經政法大學) in June 2000.

Mr. Wu Youjun (吳友俊), aged 44, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Wu is currently chairman of the Guangdong Branch of Yinji Bank of Investment Guarantee Company Limited (銀基擔保有限公司) since May 2008. Mr. Wu was the vice supervisor of the Guangzhou Representative Office of Ng & Shum Solicitors & Notaries of Hong Kong and acts as its head of the China Department from 1994 to 1998. Mr. Wu studied industrial enterprises management at the Southwestern University of Finance and Economics (西南財經大學) and graduated in June 1989, and studied banking and currencies at the Jinan University (暨南大學) and graduated in January 1998, followed by a Master of Business Administration degree from the Macau University of Science and Technology in October 2001.

Mr. Chung Kwok Mo John (鍾國武), aged 43, joined the Company on 4 March 2011 as an independent non-executive Director. Furthermore, he is the Chairman of both audit committee and remuneration committee and also a member of nomination committee of the Company. Mr. Chung has about 20 years of experience in auditing, financial management and corporate finance and he had acted as the chief financial officer of Xiwang Special Steel Company Limited (a company listed on the Stock Exchange and stock code: 1266) since September 2011. Before that, Mr. Chung was an auditor in an international accounting firm during 1992 to 1999. Since 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. Chung graduated from Macquarie University, Australia in April 1992 with a Bachelor of Economics degree, then became a member of Hong Kong Institute of Certified Public Accountants in February 1996 and that of CPA Australia in November 1995.

Senior Management

Mr. Chen Weixin (陳維新), aged 54, joined our Group in 2003. Mr. Chen is the general manager of Yong Fa Paper and is in charge of the operations management. Mr. Chen has 30 years of experience in papermaking technical and corporate management. He served as the engineer in Guangdong Zhongshan Paper Factory (廣東省中山造紙廠) from 1982 to 1992 and subsequently worked in several papermaking enterprises during the period from 1992 to 2003 assisting with the general business operations management. Mr. Chen graduated in 1982 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making processes (undergraduate diploma). He completed the refresher course of South China University of Technology (華南理工大學) in 1989 and awarded a diploma of industrial management.

Mr. Hong Guanghua (洪光華), aged 48, joined our Group in 2003. Mr. Hong is the deputy general manager of Yong Fa Paper assisting with the operation and management of Yong Fa Paper. Mr. Hong has 26 years of experience in the management of paper production, during which he has developed from technical and production supervision to system management of the entire papermaking process. Mr. Hong has worked in the paper manufacturing division of Zhongshan Sugar Group as the assistant engineer (助理工程師). Prior to joining our Group, Mr. Hong was the production manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the production management of the business. Mr. Hong graduated from South China University of Technology (華南理工大學) in 1984 majoring in light industry mechanics and completed the Master of Business Administration from Asia International Open University (Macau) in August 2004. He holds the title of light-industry mechanical engineer (輕工機械工程師) awarded by Zhongshan Intermediate Engineering Technician Assessment Committee (中山市工程技術人員中級職務評審委員會) in April 1992.

Mr. Fu Zhongyang (符中揚), aged 53, joined our Group in 2003. Mr. Fu is deputy general manager of Yong Fa Paper and is in charge of the sales operation. Mr. Fu has 20 years of experience in paper sales with expertise in paper-making and economics. Mr. Fu was a technician at Zhongshan Sugar Group from 1980 to 1986 and was involved in the marketing of paper products since 1988. Prior to joining our Group, Mr. Fu was the sales manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2001 to 2003 responsible for the sales of paper products. Mr. Fu graduated from the Department of Management Engineering of South China University of Technology (華南理工大學) in July 1988, majoring in industrial management. Mr. Fu was awarded the titles of assistant engineer (助理工程師) in paper-making processes in December 1989 and assistant economist by Zhongshan Science and Technology Committee (中山市科學技術委員會) in July 1992 and economist by the Ministry of Personnel of the PRC in October 1996.

Mr. Huang Zhichang (黃志昌), aged 49, joined our Group in 2004. Mr. Huang is the deputy general manager of Yong Fa Paper and is in charge of process technologies management. Mr. Huang has over 25 years of experience in the technology, production and management of papermaking industry. He was a director of Paper-making Institute of Guangdong Province (廣東省造紙學會). Prior to joining our Group, he served as the engineer and head of technology reform office in Guangdong Zhongshan Paper Factory from 1983 to 2004, and was responsible for production management and technology reform. Mr. Huang graduated in 1983 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making processes (undergraduate diploma).

Mr. Jiang Xianfan (江賢范), aged 41, joined our Group in 2009. Mr. Jiang is the chief engineer of Yong Fa Paper in charge of the overall project and technology management. Mr. Jiang has 18 years of experience in paper-making, having been posted to China Light Industry Nanning Design Work Company Limited (中國輕工業南寧設計工程有限公司) since graduation, during which he was involved in the design of numerous large-scale projects. Mr. Jiang graduated from Nanjing Forestry University (南京林業大學) in June 1992 majoring in pulp paper manufacturing and holds the title of senior engineer awarded by China Haicheng International Engineering Investment Institute (中國海誠國際工程投資總院) in December 2003.

Mr. Yin Wenxin (尹文欣), aged 55, joined our Group in 2003. Mr. Yin is executive president of our Group's packaging division responsible for the operations management. Mr. Yin has been involved in the production management and research of recycled paper and packaging products for over 30 years. Prior to joining our Group, Mr. Yin worked for Gannan Paper Factory (贛南造紙廠) as an engineer from 1976 to 1994. Thereafter, he was the vice president at a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the operations management. Mr. Yin graduated from Jiangxi Radio & TV University (江西廣播電視大學) in August 1983 majoring in mechanics.

Profiles of Directors and Senior Management (Continued)

Mr. Li Jun (李俊), aged 49, joined our Group in 2003. Mr. Li is the vice president of our Group's packaging division responsible for the management of the marketing centre of the division. Mr. Li has been involved in paper-making process technologies and sales management of packaging products since graduation. Prior to joining our Group, Mr. Li worked for Chenzhou Hongqi Paper Factory (郴州紅旗造紙廠) from 1982 to 1993 and was responsible for the production technology and subsequently at Chenzhou Hongqi Number Two Paper Factory (郴州第二造紙廠) as assistant plant manager till 1996. Mr. Li was the head of the transportation department at a PRC packaging products manufacturing factory from 1999 to 2003 responsible for the inventory and logistic management of the business. Mr. Li graduated from Hunan Vocational College for Light Industry (湖南省輕工業專科學校) in July 1982, majoring in paper-making processes, and obtained professional qualification as an engineer (工程師) awarded by Human Resources Bureau of Hunan Province (湖南省人事廳) in July 1992.

Mr. Zhang Xiaoming (張曉明), aged 49, joined our Group in 2003. Mr. Zhang is vice president of our Group's packaging division responsible for the project and corporate management of the division. Mr. Zhang has been involved in the paper-making and packaging industry for 25 years with a strong edge in administration having spent years in a management capacity. Prior to joining our Group, Mr. Zhang worked for Guangdong Zhongshan Paper Factory and was the deputy general manager of a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the overall sales management of the business. Mr. Zhang graduated in July 1985 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making.

Mr. Chu Deliang (褚德亮), aged 46, joined our Group in 2003. Mr. Chu is the vice president of finance responsible for overseeing the financial matters of subsidiaries in the PRC and formulating our Group's investment strategies. Mr. Chu has over 19 years of experience in the accounting field. He was conferred the title of accountant by Human Resources Bureau of Hubei Province (湖北省人事廳) in September 1992 and the title of PRC certified public accountant in September 1999. He qualified as a certified public valuer approved jointly by the Ministry of Personnel and the Ministry of Finance of the PRC in September 2000. Mr. Chu further qualified as a registered tax agent as approved by the State Administration of Taxation of the PRC in June 2001.

Ms. Chen Wei (陳威), aged 36, joined our Group in 2007. Ms. Chen is the Chief Financial Officer of the Group and responsible for financial operations. Ms. Chen has over 10 years of experience in financial management and tax services. She served as financial supervisor in several papermaking enterprises and group companies during the period from 1995 to 2001 and was in charge of accounting and financial management matters. Prior to joining our Group, Ms. Chen served as account manager and tax consultant in Zhongshan large-scale tax agent from 2005 to 2007. Ms. Chen completed the accounting course of Jinan University (暨南大學) in December 2005 and obtained a undergraduate diploma. Thereafter, she was awarded the business administration master degree from the University of Wales in April 2011, and obtained the title of senior accountant awarded by Human Resources Bureau of Guangdong Province (廣東省人事廳) in December 2008. In September 2009, Ms. Chen obtained professional qualification as a senior international finance manager awarded by International Financial Management Association. She is the member of International Financial Management Association.

Ms. Chan Yin Wah (陳燕華), aged 37, appointed as the Company Secretary and Authorized Representative at December 2011. Ms. Chan is an Associate of The Hong Kong Institute of Chartered Secretaries and an Associate of The Institute of Chartered Secretaries and Administrators. She also is a member of the Association of Chartered Certified Accountants. Ms Chan has more than 10 years of experience in the corporate secretarial sector and has worked for various international professional firms and listed companies in Hong Kong.

Corporate Governance Report

The Company has consistently adopted the Code on Corporate Governance Practices (the "Code") promulgated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as guidelines to reinforce our corporate governance principles during the year. This report describes how the Company has applied the principles.

The Company has since its listing on the Stock Exchange on 3 June 2011 (the "Listing") and up to 31 December 2011 applied the principles and complied with all the code provisions of the Code except that, with respect to the Code provision A.2.1, the roles of chairman and chief executive officer ("CEO") were performed by the same individual during such period. Considered reasons are provided in the paragraph of "Chairman and Chief Executive Officer" below.

Board of Directors

The overall management of the Company's business was vested in the Board of Directors (the "Board"). The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. The Board comprised seven members, consisting of three Executive Directors, one Non-Executive Director and three Independent Non-executive Directors as at 31 December 2011. The profiles of all directors are set out on pages 13 to 14. The relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are also disclosed.

The Company has received from each Independent Non-executive Director an annual confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Seven Board meetings were held during the financial year. Directors actively participated in each meeting in person, via telephone or videoconferencing. Directors gave and received reports on the activities of the operating divisions and presented papers supporting decisions which required the Board approval. The Board consents were given by-vote at the Board meetings.

The dates of the 2011 regular Board meetings were determined according to the requirement of the Bye-laws and any amendments to this schedule were notified to all directors at least 14 days before the meeting. Suitable arrangements were in place to allow directors to include items in the agenda for regular Board meetings.

If a director had a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual director declared respective interest and was required to abstain from voting. The matter was considered at a Board meeting attended by independent non-executive directors who had no material interest in the transaction.

Details of the attendance of directors at these Board meetings and (if applicable) at the meetings of the Board committees (the Audit Committee, the Remuneration Committee and the Nomination Committee) are set out in the following table:

	Meetings Attended/Meetings Held			
Name of directors	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Hu Zheng	7/7	N/A	1/1	0/0
Mr. Hu Hanchao	6/7	N/A	N/A	N/A
Mr. Hu Haocheng	7/7	N/A	N/A	N/A
Non-Executive Director				
Mr. Hu Hanxiang	6/7	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Chung Kwok Mo John	6/7	1/1	1/1	0/0
Mr. Wu Youjun	6/7	1/1	1/1	0/0
Mr. Zhu Hongwei	6/7	1/1	1/1	0/0

All directors accessed to the services of the company secretary who regularly updated the Board on governance and regulatory matters. Any director, wishing to do so in the furtherance of respective duties, might take independent professional advice (through the Chairman) at the Company's expense. The availability of professional advice extended to the Audit Committee, the Remuneration Committee and the Nomination Committee.

Minutes of Board meetings were taken by the company secretary and, together with any supporting documents, were available to all directors. Draft and final versions of the minutes were sent to all directors for their comment and record respectively.

Board Committees

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, throughout the year ended 31 December 2011. Their terms of reference were approved by the Board in March 2011 and revised in December 2011. During the year, these committees adhered to their principles, procedures and arrangements set out above. The respective committee secretary took full minutes of the meetings of these committees and the work of these committees was reported to the Board regularly.

Chairman and Chief Executive Officer

Under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. Mr. Hu Zheng was the Chairman of the Company, and a suitable person is still being looking for regarding the appointment of the position of CEO. The Board viewed that, under the leadership of Mr. Hu Zheng as the Chairman of the Company, the Board's decision could be made effectively and the above arrangement is beneficial to the management and development of the business of the Group and were in the best interests of the Company and its shareholders as a whole after having considered the size, business operation and nature of the Company.

Non-Executive Directors

Each Independent Non-executive Director and Non-executive Director was appointed with specific terms. Each of them is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company (the "Bye-laws").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, the Company confirms that all Directors have complied with the required standards set out in the Model Code for the period from the Listing up to 31 December 2011.

Corporate Governance Functions

The Board developed and reviewed the Company's policies and practices on corporate governance and made recommendations.

Continuous Professional Development

The Directors have been informed of the requirement under code provision A.6.1 of the CG Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company.

Remuneration Committee

The Company established a Remuneration Committee on 4 March 2011 for the purposes of making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management. The terms of reference of the Remuneration Committee have been reviewed by the Board with reference to the Code.

The Remuneration Committee presently comprises one Executive Director and three Independent Non-executive Directors. The Committee is chaired by Mr. Chung Kwok Mo John. The Remuneration Committee held one meeting during the year and detail of attendance is shown in the table on page 18. The work of the Remuneration Committee during the year included the following matters:

- make recommendations to the Board of the remuneration of Non-executive Directors for the year ended 31 December 2011. The Remuneration Committee has considered factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

- review and approve remuneration and performance — based remuneration scheme of executive directors from time to time by reference to corporate goals and objectives resolved by the Board from time to time; and

- ensure that no director or any of respective associates is involved in deciding their respective remuneration.

Pursuant to the written resolution of the shareholders of the Company passed on 4 March 2011, the Company has adopted a share option scheme (the "Scheme") whereby the Board may at its discretion grant options to such eligible participants (as defined in the Scheme) to subscribe for shares in the Company. The principal terms of the Scheme are set out in Appendix V to the prospectus of the Company dated 24 May 2011. The purpose of the Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group.

Nomination Committee

According to the Bye-laws, the Committee shall have power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. A director appointed by the Board is subject to re-election by shareholders at the next following general meeting of the Company. The nomination should be taken into consideration of the nominee's skills and experience appropriate for the requirements of the Company's business.

The Company established a Nomination Committee on 4 March 2011 for the purpose of making recommendations to the Board on the appointment of directors. The terms of reference of the Nomination Committee have been reviewed by the Board with reference to the Code.

The Nomination Committee presently comprises four Directors, including the Chairman, Mr. Hu Zheng, and the three Independent Non-executive Directors. The Committee is chaired by Mr. Hu Zheng.

The Board delegates the responsibility of appointing and re-electing Directors to the Nomination Committee and they are responsible for considering the suitability of a candidate, and approving and terminating the appointment of a Director. Reviews of the plans for orderly succession for appointment to the Board and its structure, size and composition are done on a regular basis by the Nomination Committee. They are provided with sufficient resources to discharge its duties and external consultants may be engaged, if necessary, to access a wider range of potential candidate(s).

In evaluating whether an appointee is suitable to act as a director of the company, the committee will review the professional knowledge, industrial experience and personal skills of the appointee as well as personal ethics and integrity of the appointee.

According the Company's Bye-laws, at each annual general meeting of the Company, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. Director(s) newly appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at the meeting.

The Board considers that it is the responsibility of the existing Directors to give an induction on the information of the Group to a newly appointed Director and present a manual on the duties and responsibilities as a director of a listed company to enable the newly appointed Director to have a proper understanding of the business.

During the year under review, each of the executive Directors had entered into a service contract with the Company for a period of three years commencing from 4 March 2011, which is renewable automatically for successive terms of one year upon expiry of the then current term of his appointment, unless terminated in accordance with the terms of the service contract. The non-executive Director and each of the independent non-executive Directors had signed a letter of appointment with the Company for an initial term of one year commencing from 4 March 2011 and may be terminated in accordance with the terms of the letter of appointment. During the financial year ended 31 December 2011, there were no meetings held by the Nomination Committee as the Company believes that there is no empty vacancy needed to be filled in the Board.

Auditor's Remuneration

For the year ended 31 December 2011, the fees charged by the Company's auditor in respect of audit and non-audit services amounted to approximately RMB997,000 and RMB574,000 respectively.

Audit Committee

The Company established an Audit Committee on 4 March 2011 for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. The terms of reference of the Audit Committee was first adopted on 4 March 2011 and revised on 21 December 2011 with reference to the Code.

The Audit Committee presently comprises three Independent Non-executive Directors of the Company (namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei) and is chaired by Mr. Chung Kwok Mo John.

The Audit Committee held one meeting during the year and detail of attendance is shown in the table on page 18. The work of the Audit Committee during the year included the following matters:

- provide recommendation to the Board on the reappointment of external auditors, and to approve the audit fee and terms of engagement of the external auditors;

- review and monitor external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discuss with external auditors before audit commences, the nature and scope of the audit and reporting obligations;

- monitor integrity of financial statements, interim report and annual report, and to review significant financial reporting judgments contained in them;

- review financial controls, internal controls and risk management systems;

- discuss with management regarding the system of internal controls and ensure that management has discharged its duty to have an effective internal control system including adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and their training programmes and budget;

- ensure co-ordination between internal and external auditors, and to ensure that internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of internal audit function;

- review financial and accounting policies and practices; and

- review external auditors' management letter, any material queries raised by auditors to management in respect of accounting records, financial accounts or systems of control and management's response.

Corporate Governance Report (Continued)

Directors' and Auditors' Responsibilities for Accounts

The directors acknowledge the responsibilities for preparing the accounts of the Company. The external auditor's statement about their reporting responsibilities is set out on pages 32 and 33.

Internal Controls

The Board has kept the Company's system of internal controls under review to ensure its effectiveness and convened meetings regularly to discuss financial, operational and risk management control.

Company Secretary

The secretary of the Company is Ms. Chan Yin Wah, whose biographical details are set out in the section headed "Profiles of Directors and Senior Management" in this annual report. Ms. Chan has been informed of the requirement under Rule 3.29 of the Listing Rules and her compliance with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the 2012 annual report of the Company.

Communication with Shareholders

The company endeavors to maintain an on-going dialogue with its shareholders, and in particular through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 1 June 2012 to answer any questions from shareholders.

The Group's website www.zhengye-cn.com contains an "Investor Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

Directors' Report

The Directors are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are manufacturing and sale of paper, paperboard and paper-based packaging products. The principle activities of the subsidiaries are set out in note 37 to the consolidated financial statement.

Results and Approportions

The results of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 34 to 83 of this annual report.

The directors now recommend the payment of a final dividend of RMB2.78 cents per share and a special dividend of RMB2.78 cents per share to the shareholders on the register of members on 6 June 2012, amounting to approximately RMB27,800,000 and the retention of the remaining profit for the year approximately RMB18,640,000.

The dividend will be payable in HK$. The exchange rate will be based on the opening indicative counter exchange rate (Buying TT for RMB) as on 1 June 2012 (the date of AGM of the Company) disclosed by The Hong Kong Association of Banks.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group for the financial year under review are set out in note 16 to the consolidated financial statements.

Share Capital

Details of movements in the share capital of the Company are set out in note 27 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2011, calculated in accordance with the provision of the Bermuda Companies Act 1981, amounted to RMB33,844,000.

Four Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the latest four financial years is set out on page 84 of this annual report.

Reserves

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity respectively.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to 31 December 2011.

Pre-Emptive Rights

There are no pre-emptive under the Company Bye-laws, or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors' Report (Continued)

Directors

The Directors of the Company during the period under review and up to the date of this report were:

Executive Directors

HU Zheng *(Chairman)*	(appointed on 3 September 2010)
HU Hanchao	(appointed on 3 September 2010)
HU Hancheng	(appointed on 4 March 2011)

Non-Executive Directors

HU Hanxiang	(appointed on 4 March 2011)

Independent Non-Executive Directors

CHUNG Kwok Mo John	(appointed on 4 March 2011)
WU Youjin	(appointed on 4 March 2011)
ZHU Hongwei	(appointed on 4 March 2011)

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and it still considers that the independent non-executive Directors are independent.

Pursuant to Bye-Law 108 of the Company's Bye-Laws, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Mr. Hu Zheng, Mr. Hu Hanchao and Mr. Zhu Hongwei shall retire from office by rotation at the AGM and, being eligible, offer themselves was for re-election as Directors at the AGM.

Directors and Senior Management

The biographical details of Directors and Senior Management are set and on pages 13 to 16 of this annual report.

Directors' Service Contracts

Each of the Executive Directors namely, Mr. Hu Zheng, Mr. Hu Hanchao and Mr. Hu Hancheng has entered into a service contract with the Company for a term of three years commencing from 4 March 2011, and is subject to termination by either party giving not less than three months' written notice to the other.

The Non-Executive Director and each of the Independent Non-executive Directors have been appointed for a term of one year commencing from 4 March 2011 and is subject to termination by either party giving not less than three months' written notice to the other.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Emolument Policy

Details of the Directors' emolument and emoluments of the five highest paid individuals in the Group are set at in notes 12 and 13 to consolidated financial statement.

Director's Interest in Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 36 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding companies, 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 Securities of the Company or Its Associated Corporations

As at 31 December 2011, the interests and short positions of the directors and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the ("SFO")) as recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise as required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of Directors	Name of Group member/ associated corporation	Capacity/Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Hu Zheng	The Company	Interest of controlled corporation (Note 2)	191,250,000 ordinary shares of HK$0.10 each	38.25%
	Gorgeous Rich Development Limited ("Gorgeous Rich")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hancheng	The Company	Interest of controlled corporation (Note 3)	93,750,000 ordinary shares of HK$0.10 each	18.75%
	Golden Century Assets Limited ("Golden Century")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanchao	The Company	Interest of controlled corporation (Note 4)	75,000,000 ordinary shares of HK$0.10 each	15%
	Leading Innovation Worldwide Corporation ("Leading Innovation")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanxiang	The Company	Interest of controlled corporation (Note 5)	15,000,000 ordinary shares of HK$0.10 each	3%
	Fortune View Services Limited ("Fortune View")	Beneficial owner	1 ordinary share of US$1.00	100%

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 31 December 2011.

2. These shares were held by Gorgeous Rich, which was wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.

3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.

4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.

5. These shares were held by Fortune View, which was wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang was deemed to be interested in the shares held by Fortune View.

Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2011, so far as are known to any director or chief executive of the Company, the persons (other than the directors and the chief executive(s) of the Company) were recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as either directly or indirectly interested or deemed to the interested in 5% or more of the issued share capital of the Company.

Name of Shareholder	Capacity/Nature of interest	Number and class of shares held in the Company percentage (Note 1)	Approximate shareholding percentage
Gorgeous Rich Development Limited ("Gorgeous Rich") (Note 2)	Beneficial owner	191,251,000 ordinary shares of HK$0.10 each	38.25%
Ms. Li Lifen (Note 2)	Interest of spouse	191,251,000 ordinary shares of HK$0.10 each	38.25%
Golden Century Assets Limited ("Golden Century") (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK$0.10 each	18.75%
Ms. Li Si Yuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK$0.10 each	18.75%
Leading Innovation Worldwide Corporation ("Leading Innovation") (Note 4)	Beneficial owner	75,000,000 ordinary shares of HK$0.10 each	15.00%
Ms. He Lijuan (Note 4)	Interest of spouse	75,000,000 ordinary shares of HK$0.10 each	15.00%

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant Shareholder(s) was/were interested in expressed as a percentage of the number of issued shares in the Company as at 31 December 2011.

2. Gorgeous Rich is wholly-owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich. Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen was taken to be interested in the same number of shares in which Mr. Hu Zheng was interested.

3. Golden Century is wholly-owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century. Ms. Li Si Yuan is the spouse of Mr. Hu Hancheng. Under the SFO, Ms. Li Si Yuan was taken to be interested in the same number of shares in which Mr. Hu Hancheng was interested.

4. Leading Innovation is wholly-owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation. Ms. He Lijuan is the spouse of Mr. Hu Hanchao. Under the SFO, Ms. He Lijuan was taken to be interested in the same number of shares in which Mr. Hu Hanchao was interested.

Share Option Scheme

The Company operates a share option scheme (the "Share Option Scheme"), which was adopted on 3 June 2011 (the "Adoption Date"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date. The major terms of the Share Option Scheme are summarized as follows:

The purpose of the Share Option Scheme is to provide incentives or rewards to selected eligible participants for their contribution to the Group. Under the share Option Scheme, the Directors of the Company may grant options to any Directors, employees, suppliers, customers, service providers, shareholder, advisors of any member of the Group or any entity in which any member of the Group holds an equity interest, and any other persons who the Directors consider, in their discretion, have contributed to the Group.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of Listing, unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares of the company in issue from time to time. The total number of share issued and to be issued upon the exercise of the options granted to or to be granted to each participate under the Share Option Scheme in any 12-month period shall not exceed 1% of the shares of the Company in issue.

The exercise price for the shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and the nominal value of the Company's shares.

On 16 September 2011, options to subscribe for a total of 14,100,000 shares of the Company was granted pursuant to the Share Option Scheme. There options are conditional on the achievement of the performance target as determined by the Board.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2011 is as follows:

				Number of share options				
Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable period	As at 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2011
Employees	16 September 2011	1.43	16 September 2011 to 31 March 2013	—	2,750,000	—	—	2,750,000
Employees	16 September 2011	1.43	1 April 2013 to 31 March 2014	—	4,800,000	—	—	4,800,000
Employees	16 September 2011	1.43	1 April 2014 to 31 March 2015	—	6,550,000	—	—	6,550,000

Detail of the valuation of the options granted under the Share Option Scheme during the year are set at in note 34 to the consolidated financial statement.

The options granted under the Share Option Scheme during the year were subsequently cancelled on 20 January 2012 as announced by the Company on 20 January 2012.

Directors' Report (Continued)

Connected Transactions

Certain related party transactions as disclosed in note 36 to the financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the Prospectus.

One-off Connected Transactions

No one-off connected transactions occurred after the listing of the Company.

Continuing Connected Transactions

The following transactions fall under the de minimis provision set forth in Rule 14.A33 of the Listing Rules and is therefore exempt from reporting, announcement and independent shareholders' approval.

Exempt Continuing Connected Transactions

Leasing of Cars and Trucks

Zhongshan Yong Fa Paper Industry Company Limited ("Yong Fa Paper"), a wholly-owned subsidiary of the Company and Zhongshan City Zhong Fa Equipment Rental Company Limited ("Zhong Fa Equipment"), a connected person of the Company by virtue of Rule 14A.11 of the Listing Rules, entered into the cars and trucks rental agreement dated 22 November 2010 made between Zhong Fa Equipment as lessor and Yong Fa Paper is lessee for a term of three years commencing from 1 January 2011 to 31 December 2013 at the monthly rates of RMB1,000 per car and RMB1,500 per truck payable monthly. The cars and trucks rental agreement can be terminated by mutual agreement between the parties by Yong Fa Paper giving not less than 30 days' written notice to Zhong Fa Equipment to that effect.

During the year, the rental fee of cars and trucks from Zhong Fa Equipment amounted to RMB198,000 (2010: RMB198,000).

Non-Exempt Continuing Connected Transactions

The following transaction between member of our Group constitute non-exempt continuing connected transaction of our Company under Rule 14A.33 of the Listing Rules by reason of any of the applicable percentage ratios (other than the profits ratio) being greater than 5% on an annual basis or the annual consideration being greater than HK$1,000,000.

Leasing of Premises

Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)"), a wholly-owned subsidiary of the Company and Zhongshan City Zheng Ye (Group) Company Limited ("Zheng Ye Group") entered into three tenancy agreements made between Zheng Ye Group as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting of the premises as summarized below:

- Date and subject matter of each tenancy agreement:

  — Tenancy agreement dated 1 January 2010 (as supplemented by two tenancy supplemental agreements dated 30 June 2010 and 3 July 2010) (the "First Tenancy Agreement") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..

— Tenancy agreement dated 28 September 2010 (the "Second Tenancy Agreement") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,824 sq.m..

— Tenancy agreement dated 28 September 2010 (the "Third Tenancy Agreement") in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

- Period:

  — The First Tenancy Agreement: for an original term of one year from 1 January 2010 to 31 December 2010 which was extended for a further period of three years from the expiry of the original term to 31 December 2013 with a revised rental amount pursuant to the supplemental agreement dated 30 June 2010, with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

  — The Second Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

  — The Third Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

- Monthly rental payable:

  — The First Tenancy Agreement: RMB287,000.

  — The Second Tenancy Agreement: RMB63,000.

  — The Third Tenancy Agreement: RMB12,000.

  — The monthly rent payable for the renewal term under each of the Tenancy Agreements will be the then market rent provided that any upward adjustment to the monthly rent will be subject to a cap of not more than 10% of the monthly rent payable immediately prior to the expiration of the original term.

- Rental deposit paid:

  — The First Tenancy Agreement: RMB300,000.

  — The Second Tenancy Agreement: RMB100,000.

  — The Third Tenancy Agreement: RMB50,000.

During the year, the rental fee of the premises from Zheng Ye Group amounted to RMB4,344,000 (2010: RMB3,669,000).

Directors' Report (Continued)

The Independent Non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that these transactions have been entered into:

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

(ii) on normal commercial terms; and

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

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions are in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iv) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

Corporate Governance

Details of the Company's corporate governance practices are set out in the Corporate Governance Report of the annual report.

Mode Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2011.

Major Customers and Suppliers

In the year under review, 47.78% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 24.06% of the Group's revenue for the year. 66.47% of the Group's total purchases was attributable to the Group's five largest supplier and purchases from the Group's largest supplier accounted for 18.90% of the Group's total purchases.

None of the Directors, their associates or shareholders, who to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in these major customers or suppliers.

Use of Net Proceeds from The Company's Initial Public Offering

The Company was listed on the Main Board of the Stock Exchange on 3 June 2011. The proceeds from the global offering of the shares of the Company as disclosed in the prospectus of the Company dated 24 May 2011, net of listing expenses (the "Net Processed") amounted to HK$134,400,000.

As at 31 December 2011, the Net Proceeds had been utilized in the following manner:

	Use and allocation of the Net Proceeds as originally planned HK$'000	Amount of the Net Proceeds utilized in the year ended 31 December 2011 HK$'000	Amount of the Net Proceeds remains HK$'000
Setting up the manufacturing factory in new production base in Hefei of the Anhui Province, the PRC	33,700	—	33,700
Setting up the manufacturing factory in new production base in Zhengzhou of the Henan Province, the PRC	26,800	16,619	10,181
Setting up the manufacturing factory in new production base in Wuhan of the Hubei Province, the PRC	13,500	1,087	12,413
Setting up the manufacturing factory in new production base in Shijiazhuang of the Hebei Province, the PRC	13,500	985	12,515
Upgrading our production facility	24,200	24,200	—
Research and development	6,700	6,700	—
Upgrading our ERP system	2,700	181	2,519
General working capital	13,300	13,300	—
	134,400	63,072	71,328

Directors' Interests in Competing Business

During the year, no Directors of the Company or their respective associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors of the Company were appointed as Directors to represent the interests of the Company and/or the Group.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float during the year and up to the date of this report under the Listing Rule.

Auditors

The financial statements have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the AGM.

By order of the Board

Hu Zheng
Chairman

Hong Kong, 23 March 2012

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Zhengye International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 83 which comprise the consolidated statement of financial position as at 31 December 2011, and 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 the 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 Section 90 of the Bermuda Companies Act, 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 judgement, 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.

Independent Auditor's Report (Continued)

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 Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	5	**1,163,803**	1,053,302
Cost of sales		**(948,474)**	(866,267)
Gross profit		**215,329**	187,035
Other income	7	**6,714**	5,275
Other gains and losses	8	**1,401**	13,522
Distribution and selling expenses		**(34,321)**	(23,970)
Administrative and other expenses		**(62,719)**	(44,736)
Listing expenses		**(11,926)**	(9,986)
Finance costs	9	**(28,259)**	(17,567)
Research and development cost		**(27,343)**	(12,252)
Profit before tax	10	**58,876**	97,321
Income tax expense	11	**(12,436)**	(16,211)
Profit and total comprehensive income for the year attributable to owners of the company		**46,440**	81,110
Earnings per share			
Basic (RMB)	15	**0.10**	0.22
Diluted (RMB)	15	**0.10**	0.22

Consolidated Statement of Financial Position

At 31 December 2011

	Notes	31/12/2011 RMB'000	31/12/2010 RMB'000
Non-current Assets			
Property, plant and equipment	16	**398,052**	284,070
Prepaid lease payments	17	**56,707**	58,075
Other intangible assets	18	**6,609**	—
Deposits for acquisition of property, plant and equipment		**18,022**	7,773
Deposit for leasehold land		**6,750**	6,750
		486,140	356,668
Current Assets			
Inventories	19	**112,933**	103,801
Trade and other receivables	20	**625,311**	555,673
Prepaid lease payments	17	**1,368**	1,368
Pledged bank deposits	21	**94,255**	98,239
Restricted bank deposits	21	**2,027**	—
Bank balances and cash	21	**130,692**	31,472
		966,586	790,553
Current Liabilities			
Trade and other payables	22	**418,847**	396,402
Tax liabilities		**2,986**	2,552
Obligations under finance leases	23	**13,169**	3,528
Amounts due to directors	24	**3,816**	—
Amounts due to related parties	24	**66**	1,610
Bank and other borrowings	25	**499,227**	438,089
		938,111	842,181
Net Current Assets (Liabilities)		**28,475**	(51,628)
Total Assets Less Current Liabilities		**514,615**	305,040
Capital and Reserves			
Share/paid-in capital	27	**41,655**	17
Share premium and reserves		**429,132**	289,769
Total Equity		**470,787**	289,786
Non-current Liabilities			
Deferred tax liabilities	26	**5,932**	1,907
Obligations under finance leases	23	**37,896**	13,347
		43,828	15,254
		514,615	305,040

The consolidated financial statements on pages 34 to 83 were approved and authorised for issue by the board of directors on 23 March 2012 are signed on its behalf by:

Hu Zheng
Director

Hu Hancheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share/ paid-in capital RMB'000	Share Share premium RMB'000	Statutory reserve RMB'000 (note i)	options reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	12,610	—	51,892	—	(14,539)	264,532	314,495
Profit and total comprehensive income income for the year	—	—	—	—	—	81,110	81,110
Transfer to statutory reserve	—	—	8,732	—	—	(8,732)	—
Waive of debts owed to a related party	—	—	—	—	1,108	—	1,108
Deemed distribution to shareholders under group reorganization (note ii)	(12,600)	—	—	—	(9,808)	—	(22,408)
Dividends	—	—	—	—	—	(84,526)	(84,526)
Capital injection	7	—	—	—	—	—	7
At 31 December 2010	17	—	60,624	—	(23,239)	252,384	289,786
Profit and total comprehensive income income for the year	**—**	**—**	**—**	**—**	**—**	**46,440**	**46,440**
Transfer to statutory reserve	**—**	**—**	**15,745**	**—**	**—**	**(15,745)**	**—**
Arising from exchange of shares upon Group Reorganization (Note ii)	**150**	**—**	**—**	**—**	**(150)**	**—**	**—**
New issue of shares by way of public offering	**10,414**	**138,503**	**—**	**—**	**—**	**—**	**148,917**
Shares capitalization	**31,074**	**(31,074)**	**—**	**—**	**—**	**—**	**—**
Transaction costs attributable to issue of shares	**—**	**(14,461)**	**—**	**—**	**—**	**—**	**(14,461)**
Recognition of equity-settled share-based payments	**—**	**—**	**—**	**105**	**—**	**—**	**105**
At 31 December 2011	**41,655**	**92,968**	**76,369**	**105**	**(23,389)**	**283,079**	**470,787**

Notes:

(i) In accordance with the relevant laws and regulations of the Peoples' Republic of China (the "PRC"), the subsidiaries established in the PRC are required to provide for PRC statutory reserves, by way of appropriations from their respective statutory net profit (based on the subsidiary's PRC statutory financial statements) but before dividend distributions.

In accordance with the Articles of Association of certain subsidiaries established in the PRC, those subsidiaries are required to transfer 10% of the profit after taxation to the statutory reserves.

Certain subsidiaries' appropriations to the funds are made at the discretion of the subsidiary's board of directors. The board of directors shall decide on the amounts to be appropriated based on the profitability of each subsidiary each year.

(ii) The amount represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation (the "Group Reorganisation").

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**58,876**	97,321
Adjustments for:		
Finance costs	**28,259**	17,567
Interest income	**(1,652)**	(1,448)
Depreciation of property, plant and equipment	**22,758**	19,374
Impairment losses recognised on trade and other receivables	**—**	1,219
Amortisation of prepaid lease payments	**1,368**	1,368
Amortisation of other intangible assets	**112**	—
Share-based payment expense	**105**	—
Loss (Gain) on disposal of property, plant and equipment	**5**	(14,046)
Operating cash flows before movements in working capital	**109,831**	121,355
Increase in inventories	**(9,132)**	(16,797)
Increase in trade and other receivables	**(69,638)**	(207,699)
Increase in trade and other payables	**12,963**	112,839
Increase in amounts due to directors	**3,816**	—
(Decrease) Increase in amounts due to related parties	**(1,544)**	1,610
Placement of restricted bank deposits	**(2,027)**	—
Cash generated from operations	**44,269**	11,308
Income Tax paid	**(7,977)**	(13,894)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**36,292**	(2,586)
INVESTING ACTIVITIES		
Interest received	**1,652**	1,448
Proceeds on disposal of property, plant and equipment	**460**	16,438
Purchase of property, plant and equipment	**(81,462)**	(75,702)
Deposits paid for acquisition of property, plant and equipment	**(16,855)**	(7,773)
Deposit paid for leasehold land	**—**	(6,750)
Advances to directors	**—**	(2,865)
Repayment from directors	**—**	13,560
Advances to related parties	**—**	(25,272)
Repayments from related parties	**—**	62,094
Placement (withdrawal) of pledged bank deposits	**3,984**	(17,840)
Development costs paid	**(6,721)**	—
NET CASH USED IN INVESTING ACTIVITIES	**(98,942)**	(42,662)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(27,992)**	(17,567)
Dividends paid	—	(84,526)
Repayment of bank and other borrowings	**(656,385)**	(431,688)
Repayments of obligations under finance leases	**(5,732)**	(4,359)
Additions in obligations under finance leases	—	11,120
New bank and other borrowings raised	**717,523**	607,852
Proceeds from capital injection	—	7
Deemed distribution to shareholders under group reorganisation	—	(22,408)
Proceeds from issue of shares	**148,917**	—
Expenses on issue of shares	**(14,461)**	—
Advances from directors	—	454
Repayments to directors	—	(2,110)
Advance from related parties	—	15,949
Repayment to related parties	—	(30,072)
NET CASH FROM FINANCING ACTIVITIES	**161,870**	42,652
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**99,220**	(2,596)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**31,472**	34,068
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by Bank balances and cash	**130,692**	31,472

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General

The Company was incorporated in Bermuda on 18 August 2010, as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 June 2011 (the "Listing"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located in the PRC.

The Company acts as an investment holding company. The principal activities of its subsidiaries are mainly engaged in manufacture and sale of paper, paperboard and paper-based packaging products. The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

Pursuant to the Group Reorganisation in preparation for the Listing, the Company became the holding company of TYAZ International Limited and its subsidiaries on 4 March 2011 upon completion of the Group Reorganisation. Details of the Group Reorganisation are more fully explained in the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to the Prospectus.

The Group resulting from the Group Reorganisation is considered as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting which are consistent with the principles as stated in Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by Hong Kong institute of Certified Public Accountants (the "HKICPA") as if the current group structure had been in existence throughout the two years ended 31 December 2011 or since the respective dates of incorporation or establishment, whichever is the shorter period.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the "functional currency").

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Right Issues
Amendments to HK (IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRS that have been issued but are not yet effective.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets[1]
	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 7& HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax — Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 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.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements

Except as described above, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements 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 consolidated using the existing book values from the controlling party's 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 statement 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 the 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 end of the previous reporting period or when they first came under common control, whichever is shorter.

3. Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the 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 construction in progress) are stated 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 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.

Construction in progress for production, supply or administrative purposes is 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.

3. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

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 lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Significant Accounting Policies (Continued)

Leasing (Continued)

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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Sales and lease back under finance lease

For a sales and lease back transaction resulted in a finance lease, any excess of sales proceeds over the carrying amount of the assets is deferred and amortised over the lease term.

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 that date. 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.

3. Significant Accounting Policies (Continued)

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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income/a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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/state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

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 (or from the development phase of an internal project) 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. Significant Accounting Policies (Continued)

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 generally classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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, restricted 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 of financial assets below).

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 and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 of 30 to 120 days, 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 and other 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 and other receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity instruments

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

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 Group are recognised at the proceeds received, net of direct issue costs.

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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to directors and related parties, and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 derecognises financial liabilities 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

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to other reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

3. Significant Accounting Policies (Continued)

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are 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 at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2011, the carrying amounts of intangible assets are RMB6,609,000 (2010: Nil).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset'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 amounts of trade receivables are RMB302,287,000 (2010: RMB289,559,000).

Share-based payment transactions

The fair value of options granted to employees is determined using the Binomial model. The significant inputs into the model were share price at the grant date, exercise price, risk free rate, dividend yield, expected volatility, exercise multiple and employees turnover rate. Where the outcome of the number of options that are exercisable is different, such difference will have an impact on the Group's net profit in the subsequent remaining vesting period over the relevant share options. Additional information is disclosed in Note 34.

5. Revenue

Revenue represents the net amounts received and receivable for goods sold, net of discounts and sales related taxes.

6. Segment Information

The Group is principally engaged in supply of corrugated medium paper and paper-based packaging products.

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the management of the Group) in order to allocate resources to the segment and to assess its performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance. The Group's reportable segments under HKFRS 8 are identified as two main operations:

1. Paper-based packaging: this segment produces and sells paper-based packaging products.

2. Corrugated medium paper: this segment produces and sells corrugated medium paper.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

For the year ended 31 December 2011

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	**643,911**	**519,892**	**1,163,803**
Inter-segment sales	**—**	**120,596**	**120,596**
Segment Revenue	**643,911**	**640,488**	**1,284,399**
Eliminations			**(120,596)**
Group Revenue			**1,163,803**
SEGMENT RESULT	**33,931**	**45,884**	**79,815**
Unallocated corporate expenses, net			**(20,939)**
Profit before tax			**58,876**

6. Segment Information (Continued)

(a) Segment revenue and results (Continued)

For the year ended 31 December 2010

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	565,942	487,360	1,053,302
Inter-segment sales	—	113,411	113,411
Segment Revenue	565,942	600,771	1,166,713
Eliminations			(113,411)
Group Revenue			1,053,302
SEGMENT RESULT	39,466	69,917	109,383
Unallocated corporate expenses, net			(12,062)
Profit before tax			97,321

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represented the profit earned by each segment without allocation of legal and professional fee, bank interest income and other corporate income and expenses.

No reconciliation of reportable segment revenues is provided as the total revenues for reportable segments excluded inter-segment revenue is the same as the Group's revenue.

(b) Geographic information

The Group's operations are all located in the PRC.

6. Segment Information (Continued)

(c) Information about major customers

Revenue from customers of the corresponding years over 10% of the total revenue of the Group is as follows:

	2011 RMB'000	2010 RMB'000
Customer A[1]	**279,962**	203,252
Customer B[1]	**N/A[2]**	106,673

[1] Revenue from paper-based packaging.

[2] The corresponding revenue did not contribute over 10% of the total sales of the Group for the year ended 31 December 2011.

(d) Segment assets and liabilities

Information of the operating segments of the Group reported to the chief operating decision maker for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities are presented.

7. Other Income

	2011 RMB'000	2010 RMB'000
Interest income	**1,652**	1,448
Management fee income	**197**	597
Sales of scrap materials	**14**	779
Government grants	**4,851**	2,211
Sundry income	**—**	240
Total	**6,714**	5,275

8. Other Gains and Losses

	2011 RMB'000	2010 RMB'000
Exchange gain, net	**1,406**	695
Impairment losses recognised on trade and other receivables	**—**	(1,219)
(Loss) gain on disposals of property, plant and equipment	**(5)**	14,046
	1,401	13,522

9. Finance Costs

	2011 RMB'000	2010 RMB'000
Interest on:		
Bank and other borrowings wholly repayable within five years	**26,926**	15,995
Finance leases	**1,610**	1,572
Total borrowing costs	**28,536**	17,567
Less: Amounts capitalised in the cost of qualifying assets	**277**	—
	28,259	17,567

10. Profit before Tax

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

	2011 RMB'000	2010 RMB'000
Depreciation of property, plant and equipment (note)	**22,758**	19,374
Amortisation of other intangible assets	**112**	—
Amortisation of prepaid lease payments	**1,368**	1,368
Total depreciation and amortisation	**24,238**	20,742
Auditor's remuneration	**1,571**	1,148
Impairment losses recognised on trade and other receivables	**—**	1,219
Operating lease rental in respect of		
— land and buildings	**9,795**	5,248
— plant and equipment	**—**	3,175
— vehicles	**198**	198
Staff costs		
— directors' emoluments	**6,469**	1,176
— salaries and other benefits costs	**118,198**	97,941
— retirement benefits scheme contribution	**4,420**	3,473
Total staff costs	**129,087**	102,590
Less: Amount capitalised in construction in progress	**3,726**	—
Amount capitalised in intangible assets	**689**	—
	124,672	102,590

Note: Depreciation with the amounts of RMB786,000 (2010: RMB1,835,000) is in respect of research and development costs.

11. Income Tax Expense

	2011 RMB'000	2010 RMB'000
Current tax:		
PRC Enterprise Income Tax	**8,411**	15,682
Deferred tax (note 26):		
Current year	**4,025**	529
	12,436	16,211

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of The People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to Article Eight of The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises which became effective from 9 April 1991 and expired since 1 January 2008, Foreign Investment and Foreign Enterprises for production were approved to enjoy 2-year income tax exemption commencing from their first profit-making year of operations, and thereafter to a 50% relief for the following three years ("Certain Conditions 1"). This policy was still in effect when the income tax rate unified in 1 January 2008 if an enterprise was in the process of this transition stage at that point.

According to the approval documents issued by the Ministry of Finance, the Ministry of Technology and the State Administration of Taxation, high-technology enterprises should be eligible for a preferential income tax rate at 15% ("Certain Conditions 2").

Zheng Ye Packaging (Zhongshan) and Yong Fa Paper obtained the Certificate of High-Technology in 2009 and the applicable income tax rate was 15% in 2010 and 2011 based on Certain Conditions 2.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Huangpu District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Alliance Packaging was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010 and 2011.

According to document (Zhudouguoshuihan [2008] 51) issued by Dongmen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zheng Ye Packaging (Zhuhai) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010 and 2011.

11. Income Tax Expense (Continued)

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

	2011	2010
	RMB'000	RMB'000
Profit before tax	**58,876**	97,321
PRC Enterprise Income Tax at 25% (2010: 25%)	**14,719**	24,330
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(1,478)**	—
Tax effect of expenses not deductible for tax purpose	**3,831**	3,393
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	**(8,088)**	(11,679)
Tax effect of tax losses not recognised	**735**	339
Utilization of deductible temporary differences previously not recognized	**(445)**	—
Withholding tax on retained profits of PRC subsidiaries to be distributed (note)	**3,200**	—
Others	**(38)**	(172)
Tax charge for the year	**12,436**	16,211

(Note) In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. The amount represents the withholding income tax provided on the profits arisen during the year ended 31 December 2011 of PRC subsidiaries of the Company, which are available for distribution amounted to RMB32,000,000.

No withholding tax on profits arisen for the year ended 31 December 2010 have been recognised because the Group is in a position to control the distribution of profits and the directors considered no dividend will be declared on the profits arisen during the year of 2010 to "non-resident" investors in the foreseeable future.

12. Directors' Emoluments

The emoluments paid or payable to each of the 7 directors (2010: 7) were as follows:

	Salary RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2011				
Hu Zheng	**2,126**	**—**	**10**	**2,136**
Hu Hanchao	**1,879**	**—**	**10**	**1,889**
Hu Hancheng	**1,879**	**—**	**8**	**1,887**
Hu Hanxiang	**314**	**—**	**—**	**314**
Wu Youjun	**70**	**—**	**—**	**70**
Zhu Hongwei	**70**	**—**	**—**	**70**
Chung, Kwok Mo John	**103**	**—**	**—**	**103**
	6,441	**—**	**28**	**6,469**

	Salary RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2010				
Hu Zheng	360	—	—	360
Hu Hanchao	360	—	—	360
Hu Hancheng	360	—	—	360
Hu Hanxiang	96	—	—	96
Wu Youjun	—	—	—	—
Zhu Hongwei	—	—	—	—
Chung, Kwok Mo John	—	—	—	—
	1,176	—	—	1,176

No directors waived any emoluments in the year ended 31 December 2011 and 2010 respectively.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, four (2010: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emolument of the remaining one (2010: two) individual was as follows:

	2011 RMB'000	2010 RMB'000
Salary	**260**	420
Bonus	**—**	—
Retirement benefits scheme contribution	**7**	8
	267	428

14. Dividends

	2011 RMB'000	2010 RMB'000
Dividends recognised as distribution during the year	**—**	84,526

The directors of the Company recommend the payment of a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share for the year ended 31 December 2011. The proposed dividend of approximately RMB27,800,000 will be paid on or before 19 June 2012 to those shareholders whose names appear on the Company's register of members on 6 June 2012.

The proposed final and special dividends are subject to approval by the shareholders at the forthcoming annual general meeting.

15. Earnings per Share

The calculation of the basic and diluted 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 and diluted earnings per Share	**46,440**	81,110
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per Share	**447,602,740**	375,000,000

The computation of diluted earnings per Share for the year ended 31 December 2011 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for 2011.

16. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2010	87,522	—	4,552	5,764	197,966	7,800	303,604
Additions	12,422	—	836	623	25,049	42,980	81,910
Disposals	(4,499)	—	—	—	(8,312)	—	(12,811)
Transfer from construction in progress	4,587	—	—	—	31,655	(36,242)	—
At 31 December 2010	100,032	—	5,388	6,387	246,358	14,538	372,703
Additions	1,809	2,097	1,762	4,463	8,974	118,100	137,205
Disposals	(91)	—	(47)	—	(754)	—	(892)
Transfer from construction in progress	3,301	—	6	—	44,031	(47,338)	—
At 31 December 2011	105,051	2,097	7,109	10,850	298,609	85,300	509,016
DEPRECIATION							
At 1 January 2010	25,816	—	1,741	2,497	49,624	—	79,678
Provided for the year	4,862	—	730	898	12,884	—	19,374
Eliminated on disposal	(2,567)	—	—	—	(7,852)	—	(10,419)
At 31 December 2010	28,111	—	2,471	3,395	54,656	—	88,633
Provided for the year	4,969	275	1,019	990	15,505	—	22,758
Eliminated on disposals	(80)	—	(13)	—	(334)	—	(427)
At 31 December 2011	33,000	275	3,477	4,385	69,827	—	110,964
CARRYING VALUES							
At 31 December 2011	72,051	1,822	3,632	6,465	228,782	85,300	398,052
At 31 December 2010	71,921	—	2,917	2,992	191,702	14,538	284,070

16. Property, Plant and Equipment (Continued)

The above items of property, plant and equipment, except for construction in progress are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual value at the following rates per annum:

Buildings	4.5%–18%
Leasehold improvements	20%–50%
Furniture and fixtures	11.25%–18%
Motor vehicles	18%
Plant and machinery	4.5%–18%

The buildings are situated in the PRC and are held under medium term lease.

Plant and machinery with carrying value of RMB8,145,000 (31 December 2010: RMB9,391,000) are held under finance lease.

Plant and machinery with carrying value of RMB629,000 (31 December 2010: RMB629,000), are held under a sales and lease back agreement.

Construction in progress with carrying value of RMB39,756,000 (31 December 2010: Nil) is in respect of assets held under finance lease.

Details of property, plant and equipment pledged are set out in note 31.

17. Prepaid Lease Payments

	31/12/2011 RMB'000	31/12/2010 RMB'000
Analysed for reporting purposes as:		
Current asset	**1,368**	1,368
Non-current asset	**56,707**	58,075
	58,075	59,443
Leasehold land in the PRC		
Medium term lease	**58,075**	59,443

Details of land use rights pledged are set out in note 31.

18. Other Intangible Assets

	Development costs RMB'000
COST	
At 1 January 2011	—
Additions	6,721
At 31 December 2011	6,721
AMORTISATION	
At 1 January 2011	—
Charge for the year	—
Eliminated on disposals	112
At 31 December 2011	112
CARRYING VALUES	
At 31 December 2011	6,609
At 31 December 2010	—

Development costs are internally generated.

The above intangible asset has finite useful lives. Such intangible asset is amortised on a straight-line basis over 5 years.

19. Inventories

	31/12/2011 RMB'000	31/12/2010 RMB'000
Raw material and consumables	**84,898**	73,120
Work in progress	**5,285**	3,818
Finished goods	**22,750**	26,863
	112,933	103,801

Details of inventories pledged are set out in note 31.

20. Trade and Other Receivables

	31/12/2011 RMB'000	31/12/2010 RMB'000
Trade receivables	**302,287**	289,559
Less: allowance for doubtful debts	**—**	—
	302,287	289,559
Advances to suppliers	**3,443**	2,758
Less: allowance for doubtful debts	**—**	1,219
	3,443	1,539
Bills receivables	**300,280**	240,134
Prepayment	**4,676**	4,727
Other receivables	**14,625**	19,714
	319,581	264,575
Total trade and other receivables	**625,311**	555,673

The Group allows a credit period of 30 to 120 days to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. For those major customers with a good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank.

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

	31/12/2011 RMB'000	31/12/2010 RMB'000
0–60 days	**241,120**	245,631
61–90 days	**32,702**	26,785
91–180 days	**28,213**	16,969
Over 180 days	**252**	174
	302,287	289,559

The carrying amounts of the Group's bills receivables are aged within 180 days based on the date of receipt. Included in bills receivables amounting to RMB227,255,000 (2010: RMB198,803,000) have been endorsed to the Group's creditors for settlement of the payables at the same amount. These bills have not yet been matured at 31 December 2011.

20. Trade and Other Receivables (Continued)

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB8,088,000 (2010: RMB19,024,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable as there has significant subsequent settlements after year end. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	31/12/2011 RMB'000	31/12/2010 RMB'000
0–30 days	**1,678**	11,802
31–60 days	**6,155**	6,796
61–90 days	**—**	252
Over 90 days	**255**	174
Total	**8,088**	19,024

Movement in the allowance for doubtful debts

	2011 RMB'000	2010 RMB'000
1 January	**1,219**	1,020
Impairment losses recognized on receivables	**—**	1,219
Amounts written off as uncollectible	**(1,219)**	(1,020)
31 December	**—**	1,219

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of Nil (2010: RMB1,219,000), which have either been placed under liquidation or in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

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.

Details of trade receivables and bills receivables pledged as set out in note 31.

21. Pledged Bank Deposits, Restricted Bank Deposits and Bank Balances and Cash

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB94,255,000 (2010: RMB98,239,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Restricted bank deposits represent deposits restricted for import duties to local customs.

Bank balances carry interest at market rates within range from 0.01% to 0.5% (2010: 0.01% to 0.36%) per annum. The pledged deposits carry interest rates which range from 0.01% to 3.23% (2010: 1.71% to 1.98%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

22. Trade and Other Payables

	31/12/2011 RMB'000	31/12/2010 RMB'000
Trade payables	**285,678**	260,905
Bills payables — secured	**65,740**	76,628
Other tax payables (Note)	**24,564**	23,706
Payroll and welfare payables	**17,380**	16,249
Listing expenses	**—**	5,054
Construction payables	**15,776**	6,838
Others	**9,709**	7,022
	418,847	396,402

Note: Included in other tax payables with the amounts of RMB22,433,000 (2010: RMB22,868,000) are in respect of provision of Value-added Tax.

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

	31/12/2011 RMB'000	31/12/2010 RMB'000
0–60 days	**173,619**	220,127
61–90 days	**20,352**	17,733
91–180 days	**87,296**	21,687
Over 180 days	**4,411**	1,358
	285,678	260,905

Certain suppliers allow the Group to make the payments by bills payables within the credit period, which are repayable within 180 days from the date of bills being issued.

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

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23. Obligations under Finance Leases

	31/12/2011 RMB'000	31/12/2010 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**13,169**	3,528
Non-current liabilities	**37,896**	13,347
	51,065	16,875

The Group has leased certain of its plant and machinery and construction in progress under finance leases. The lease term is 20 years (31 December 2010: 20 years). Interest rates underlying all obligations under finance leases are fixed at an average 8.74% (2010: 8.66%) per annum at contract dates.

The Group leased certain of its manufacturing equipment under a sales and lease back agreement in 2010. The lease term was 3 years and the ownership of the equipment would be transferred to the Group by the end of the lease term without consideration. The net proceeds of RMB11,120,000 was received and credited to obligations under finance leases in 2010. The effective interest rates underlying the obligations under finance lease are at 12.26% per annum. The carrying amount of the equipment under the sales and leaseback agreement was disclosed in note 16.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2011 RMB'000	31/12/2010 RMB'000	31/12/2011 RMB'000	31/12/2010 RMB'000
Amounts payable under finance leases				
Within one year	**17,099**	4,810	**13,169**	3,528
In more than one year but not more than five years	**35,801**	7,360	**29,728**	4,849
More than five years	**11,584**	12,433	**8,168**	8,498
	64,484	24,603	**51,065**	16,875
Less: future finance charges	**(13,149)**	(7,728)	**N/A**	N/A
Present value of lease obligations	**51,065**	16,875	**51,065**	16,875
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(13,169)**	(3,528)
Amounts due for settlement after 12 months			**37,896**	13,347

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

24. Amounts due to Directors/Related Parties

The amounts as at 31 December 2011 and 2010 are non-trade related, unsecured, interest free and repayable on demand.

25. Bank and Other Borrowings

	31/12/2011 RMB'000	31/12/2010 RMB'000
Bank loans, secured	**499,227**	433,919
Other loan, secured	**—**	4,170
	499,227	438,089
Carrying amount repayable:		
On demand or within one year	**499,227**	438,089

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

	31/12/2011 RMB'000	31/12/2010 RMB'000
RMB	**479,639**	426,890
USD	**17,310**	11,199
HKD	**2,278**	—
	499,227	438,089

Bank and other borrowings as at year end were secured by the pledge of assets as set out in notes 31.

Other loan represents a borrowing from a financial institute and secured by the Group's certain equipment and machinery in 2010. The loan was fully repaid in 2011.

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

	31/12/2011	31/12/2010
Effective interest rate:		
Fixed rate borrowings	**3.17% to 8.55% per annum**	1.54% to 6% per annum
Variable rate borrowings	**benchmark rate per annum**	benchmark rate per annum

Benchmark interest rate is quoted by the People's Bank of China.

26. Deferred Taxation

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

	Depreciation differences RMB'000	Undistributed profit of a subsidiary RMB'000	Total RMB'000
At 1 January 2010	1,197	181	1,378
Charge (credit) for the year	710	(181)	529
At 31 December 2010	1,907	—	1,907
Charge for the year	825	3,200	4,025
At 31 December 2011	**2,732**	**3,200**	**5,932**

Under the EIT law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB168,031,000 (2010: RMB144,751,000).

No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

27. Share/Paid-in Capital

		Number of shares	Nominal value HK$
Ordinary shares of HK$0.10 each			
Authorised:			
At date of incorporation and at 1 January 2011	(i)	2,000,000	200,000
Increase in authorised capital	(ii)	998,000,000	99,800,000
At 31 December 2011		1,000,000,000	100,000,000
Issued and fully paid:			
At date of incorporation and at 1 January 2011	(i)	1	0.1
Issue of shares	(iii)	1,999,999	200,000
Shares capitalisation	(iv)	373,000,000	37,300,000
New issue of shares by way of public offering	(v)	125,000,000	12,500,000
At 31 December 2011		500,000,000	50,000,000

27. Share/Paid-in Capital (Continued)

	31/12/2011 RMB'000
Presented as	**41,655**

Notes:

(i) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act as an exempted company with an authorised share capital of HK$200,000 divided into 2,000,000 Shares of a par value of HK$0.10 each. On 1 September 2010, one Share was allotted and issued, nil paid, to Mr. Hu Zheng.

(ii) On 4 March 2011, the authorised share capital of the Company was increased from HK$200,000 divided into 2,000,000 Shares of a par value of HK$0.10 each to HK$100,000,000 divided into 1,000,000,000 Shares with a par value of HK$0.10 each, by the creation of 998,000,000 ordinary shares with a par value of HK$0.10 each.

(iii) On 4 March 2011, the Company issued 1,999,999 ordinary shares of HK$0.1 each pursuant to the Group Reorganisation in exchange for the entire issued share capital of TYAZ International Limited and became the ultimate holding company of the Group.

(iv) Pursuant to written resolutions on 19 May 2011, the Directors resolved to capitalise HK$37,300,000 (equivalent to RMB31,074,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 373,000,000 Shares as a result of Global Offering (as defined in the "Prospectus").

(v) In connection with the Company's initial public offering, 125,000,000 Shares of HK$0.10 each were issued at a price of HK$1.43 for a total cash consideration, before expenses, of approximately HK$178,750,000 (equivalent to RMB148,917,000). Dealings in the Shares on the Main Board of the Stock Exchange commenced on 3 June 2011.

All the shares issued during the period from 18 August 2010 (date of incorporation) to 31 December 2011 ranked pari passu in all respects with the then existing shareholders.

Because the Group Reorganisation was only completed on 4 March 2011, the balance of share/paid-in capital at 31 December 2010 represented the aggregation of issued share capital of Zheng Ye International Company Limited comprising 100 shares of HK$100 each (equivalent to RMB10,000) and paid up capital of TYAZ International Limited comprising 1,000 shares of US$1 each (equivalent to approximately RMB7,000) comprising the Group at that date.

28. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes bank and other borrowings as disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share/paid-in capital and reserves and retained earnings.

The directors of the Company review the capital structure periodically. As part of the review, the directors consider the cost of capital and the risks associates with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of the new debt or the redemption of existing debt.

29. Financial Instruments

a. Categories of financial instruments

	31/12/2011 RMB'000	31/12/2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**844,166**	679,118
Financial liabilities (excluded obligations under finance leases)		
Amortised cost	**897,392**	812,395

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, restricted bank deposits, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to directors and related parties, and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency 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.

29. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

The Group collects most of its revenue and incur most of the expenditures in RMB.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposures and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	31/12/2011 RMB'000	31/12/2010 RMB'000
Assets		
USD	**4,322**	2,729
HKD	**5,877**	3,706
Liabilities		
USD	**50,437**	23,779
HKD	**15,767**	13,295

Sensitivity analysis

The Group mainly exposes to the currency of United States ("USD") and the currency of Hong Kong ("HKD").

The following table details the Group's sensitivity to a 10% (2010: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel, and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2010: 10%) change in foreign currency rates. The sensitivity analysis includes banking borrowings as well as bank balances denominated in currencies. A positive number below indicates an increase in post-tax profit where the RMB strengthens 10% (2010: 10%) against the relevant currency. For a 10% weakening of RMB against the relevant currency, they would be an equal and opposite impact on the profit.

For the year ended 31 December 2011

29. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	2011 RMB'000	2010 RMB'000
USD		
Profit or loss	**3,920**	1,789
HKD		
Profit or loss	**840**	815

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank and other borrowings which carry at prevailing deposit interest rates and variable rate based on the interest rates quoted by the People's Bank of China.

The Group's fair value interest rate risk relates primarily to its fixed rate pledged bank deposits and bank and other borrowings. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

Sensitivity analysis on bank balances is not presented as the management considers that the Group's exposure to interest rate fluctuation is insignificant.

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2010: 50 basis points) increase or decrease for variable bank and other borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates in respect of bank and other borrowings.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variable were held constant, the Group's: post-tax profit for the year ended 31 December 2011 would decrease/increase by RMB1,083,000 (2010: decrease/increase by RMB546,000).

29. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2011, 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 statements of financial position.

The management considers the credit risk exposure of the Group is low as the sales are normally settled within 30 to 120 days. The management nonetheless reviews the recoverable amount of each individual debt regularly, if any, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regards, the management of the Group consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 39% (2010: 38%) of total trade receivables represented amounts due from the Group's largest three trade debtors for the year ended 31 December 2011. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than those described above, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilised banking facilities of approximately RMB197,201,000 (2010: RMB164,000,000).

The following table details the Group's contractual maturity for its 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.

For the year ended 31 December 2011

29. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

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 year of the reporting period.

Liquidity table

	Weighted average interest rate %	6 months or less RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2011							
Non-derivative financial liabilities							
Trade and other payables	**N/A**	**393,898**	**385**	**—**	**—**	**394,283**	**394,283**
Amounts due to directors	**N/A**	**3,816**	**—**	**—**	**—**	**3,816**	**3,816**
Amounts due to related parties	**N/A**	**66**	**—**	**—**	**—**	**66**	**66**
Bank and other borrowings							
— fixed rate	**7.01**	**236,498**	**10,213**	**—**	**—**	**246,711**	**244,427**
— variable interest rate	**6.73**	**209,015**	**56,451**	**—**	**—**	**265,466**	**254,800**
Obligations under finance leases	**9.00**	**7,993**	**9,106**	**35,801**	**11,584**	**64,484**	**51,065**
		851,286	**76,155**	**35,801**	**11,584**	**974,826**	**948,457**
2010							
Non-derivative financial liabilities							
Trade and other payables	N/A	372,346	350	—	—	372,696	372,696
Amounts due to related parties	N/A	1,610	—	—	—	1,610	1,610
Bank and other borrowings							
— fixed rate	4.93	280,697	30,294	—	—	310,991	309,739
— variable interest rate	5.61	47,450	85,555	—	—	133,005	128,350
Obligations under finance leases	8.66	1,980	2,830	7,360	12,433	24,603	16,875
		704,083	119,029	7,360	12,433	842,905	829,270

The amounts included above for variable interest rate instrument for non-derivative financial liabilities is subject to change if changes in variable interest rates defer to those estimates of interest rates determined at the end of the reporting period.

29. FINANCIAL INSTRUMENTS (Continued)

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The management of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

30. Major Non-cash Transactions

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB39,922,000.

31. Pledge of Assets

The following assets were pledged to secure certain banking and other facilities granted to the Group at the end of the reporting period:

	31/12/2011 RMB'000	31/12/2010 RMB'000
Buildings and construction in progress	**46,730**	40,583
Plant and machinery	**122,481**	132,552
Land use right	**58,075**	59,443
Trade receivables	**138,559**	127,371
Bills receivables	**44,500**	—
Pledged bank deposits	**94,255**	98,239
Inventories	**101,395**	35,397
	605,995	493,585

32. Operating Leases

The Group as lessee

Minimum lease payments under operating leases during the year:

	31/12/2011 RMB'000	31/12/2010 RMB'000
Plant and machinery	—	3,175
Premises	**9,795**	5,248
Vehicles	**198**	198
	9,993	8,621

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:

	31/12/2011 RMB'000	31/12/2010 RMB'000
Within one year	**11,949**	7,848
In the second to fifth year inclusive	**14,203**	9,792
After five years	**6,309**	5,161
	32,461	22,801

Operating lease payments represent rentals payable by the Group for certain of its office premises and plant, equipment and vehicles. Leases are negotiated for a term of one to five years. Rentals are fixed at the date of signing of lease agreements.

33. Capital Commitments

	31/12/2011 RMB'000	31/12/2010 RMB'000
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**64,460**	52,013

34. Share-based Payment Transactions

Equity-settled share scheme of the Company:

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 19 May 2011 for the primary purposes of providing incentives to certain directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries to subscribe for shares in the Company.

At 31 December 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 14,100,000 (2010: Nil), representing 2.82% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Consideration of HK$1 is payable on the grant of option. Option can be exercised according to the schedule set out below. The exercise price is determined by the directors of the Company, and will not be less than the greater of: (i) the closing price of the Company on the date of grant; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

Category of Grantee	Date of grant	Vesting period	Exercise period	Exercise Price HKD
Employees	16/9/2011	16/09/2011–31/03/2013	16/09/2011–31/03/2013	1.43
		16/09/2011–31/03/2014	01/04/2013–31/03/2014	
		16/09/2011–31/03/2015	01/04/2014–31/03/2015	

There is no share options exercised or expired during the year ended 31 December 2011.

During the year ended 31 December 2011, option was granted on 16 September 2011. The estimated fair value of the option granted on that date is HK$1,348,000.

34. Share-based Payment Transactions (Continued)

Equity-settled share scheme of the Company: (Continued)

The fair value was calculated using the Binomial model. The inputs into the model were as follows:

	16/09/2011
Market price	**HK$0.71**
Exercise price	**HK$1.43**
Expected volatility	**46.70%–61.20%**
Expected life	**3.54 years**
Risk-free rate	**0.16%–0.37%**
Expected dividend yield	**3.6%**
Exercise multiple	**2.2**

Expected volatility was determined based on the standard deviation of return on historical share prices of four comparable companies with similar business nature of the Company as of the valuation date.

The Group recognised the total expense of RMB105,000 for the year ended 31 December 2011 (2010: nil) in relation to share options granted by the Company.

The number of share options granted expected to vest has been reduced to reflect historical experience of forfeiture of 5% of options granted prior to completion of vesting period and accordingly the share option expense has been adjusted. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in the profit and loss over the remaining vesting period, with a corresponding adjustment to the share options reserve.

Pursuant to the resolution passed on 20 January 2012, due to the significant drop in the share price resulting from the global market downturn, the Company cancelled the issued share options to subscribe for a total of 14,100,000 Shares granted to the employees of the Group on 16 September 2011; and offered to grant new options to subscribe for a total of 21,350,000 Shares of the Company to directors and employees of the Company subject to the acceptance of the grantees pursuant to the rules of the Company's share option scheme adopted on 3 June 2011.

35. Retirement Benefits Schemes

The Group operates a mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes HK$1,000 per person to the Scheme, which is matched by employees.

The employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The total cost charged to income of RMB4,448,000 (2010: RMB3,473,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. Related Parties Transactions

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye (Group) Company Limited ("Zheng Ye Group")	With the common controlling shareholders
Zhongshan City Zhong Fa Equipment Rental Company Limited ("Zhong Fa Equipment")	With the common controlling shareholders
Zhang Junchao	Director of a subsidiary
Hu Zheng	Director of the Company

36. Related Parties Transactions (Continued)

(b) Related parties transactions

During the year, the Group entered into the following transactions with related parties:

	2011 RMB'000	2010 RMB'000
Rental expenses of equipments		
— Zhong Fa Equipment	—	2,451
— Zheng Ye Group	—	425
	—	2,876
Rental expenses of property		
— Zhong Fa Equipment	—	300
— Zheng Ye Group	**4,344**	3,669
— Hu Zheng	**52**	—
	4,396	3,969
Rental expenses of vehicles		
— Zhong Fa Equipment	**198**	198
Management fee income		
— Zheng Ye Group	—	597
Purchase of property, plant and equipment		
— Zhong Fa Equipment	—	23,469
— Zheng Ye Group	—	4,361
— Zhang Junchao	**300**	—
	300	27,830

(c) Zhengye Group has mortgaged properties and equipment to secure borrowings made to the Group amounting to RMB10,000,000 as at 31 December 2010, the mortgage was released on 3 June 2011.

(d) Rental deposit of RMB450,000 paid to Zheng Ye Group has been included in trade and other receivables in the Consolidated Statement of Financial Position at 31 December 2011.

(e) Related parties balances

Amounts due to directors and amounts due to related parties are separately disclosed on the Consolidated Statement of Financial Position and the related notes.

36. Related Parties Transactions (Continued)

(f) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**9,222**	3,048
Retirement benefits scheme contributions	**98**	37
	9,320	3,085

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

37. Particulars of Subsidiaries of the Company

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	class of shares hold	Proportion ownership interest held by the Company At 31 December 2011	2010	Principal activities
TYAZ International Limited (“Zheng Ye (BVI)”)	British Virgin Islands (“BVI”) 5 July 2010	Authorized US$50,000 US$10,000 *	Ordinary	**100%***	100%*	Investment holding
正業國際有限公司 Zheng Ye International Company Limited (“Zheng Ye International”)	Hong Kong 5 February 1999	HK$10,000	Ordinary	**100%**	100%	Investment holding
誠業（香港）投資實業有限公司 Shing Yip (Hong Kong) Investment Enterprises Limited (“Shing Yip (Hong Kong)”)	Hong Kong 6 May 2005	HK$10,000	Ordinary	**100%**	100%	Investment holding
正業包裝（中山）有限公司 Zheng Ye Packaging (Zhongshan) Company Limited (“Zheng Ye Packaging (Zhongshan)”)	Peoples' Republic of China (“PRC”) 25 August 2003	HK$12,000,000	Ordinary	**100%**	100%	Manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging products
中山永發紙業有限公司 Zhongshan Yong Fa Paper Industry Company Limited (“Yong Fa Paper”)	PRC 26 November 2003	HK$81,500,000	Ordinary	**100%**	100%	Manufacturing and sale of paper and paperboard
中山正業聯合包裝有限公司 Zhongshan Zheng Ye Alliance Packing Company Limited (“Zheng Ye Alliance Packaging”)	PRC 21 August 2006	RMB10,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products

37. Particulars of Subsidiaries of the Company

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	class of shares hold	Proportion ownership interest held by the Company At 31 December 2011	2010	Principal activities
珠海正業包裝有限公司 Zhuhai Zheng Ye Packing Company Limited ("Zheng Ye Packaging (Zhuhai)")	PRC 25 August 2005	HK$12,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and related packaging service
中山市中糖廢紙回收有限公司 Zhongshan City Zhong Tang Waste Paper Recycling Company Limited ("Zhong Tang Recycling")	PRC 16 February 2001	RMB500,000	Ordinary	**100%**	100%	Procurement and wholesale business of waste paper
合肥市正業包裝有限公司 He Fei City Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (He Fei)")	PRC 10 September 2010	RMB10,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
鄭州正業包裝有限公司 Zheng Zhou Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zheng Zhou)")	PRC 27 April 2011	RMB10,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
石家莊正業包裝有限公司 Shi Jia Zhuang Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Shi Jia Zhuang)")	PRC 23 November 2011	RMB20,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
武漢正業包裝有限公司 Wu Han Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Wu Han)")	PRC 6 September 2011	RMB10,000,000	Ordinary	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
合肥華嘉再生資源有限責任公司 He Fei Hua Jia Resource Recycling Company Limited	PRC 15 November 2011	RMB500,000	Ordinary	**100%**	100%	Procurement and wholesale business of waste paper

* Except for TYAZ, the issued capital of all other companies is fully paid and indirectly held by the Company.

38. Financial Summary of the Company

	31/12/2011 RMB'000	31/12/2010 RMB'000
NON-CURRENT ASSETS		
Amount due from a subsidiary	**95,416**	—
Investment in a subsidiary	**135,884**	—
Property, plant and equipment	**137**	—
	231,437	—
CURRENT ASSETS		
Bank balances	**798**	—
Other receivables	**602**	—
Dividend receivables	**37,683**	—
	39,083	—
CURRENT LIABILITIES		
Other payables	**573**	—
Amounts due to directors	**3,816**	—
	4,389	—
Net current assets	**34,694**	—
Net assets	**266,131**	—
OWNERS' EQUITY		
Share capital	**41,655**	—
Share premium	**92,968**	—
Reserves	**131,508**	—
	266,131	—

Financial Summary

Consolidated results

	For the year ended 31 December			
	2008 RMB'000 (Note 3)	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	**2011** **RMB'000**
Revenue	836,409	743,351	1,053,302	**1,163,803**
Profit before taxation	30,283	72,269	97,321	**58,876**
Income tax expense	(5,817)	(10,005)	(16,211)	**(12,436)**
Profit for the year	24,466	62,264	81,110	**46,440**
Total comprehensive income for the year attributable to the owners of the Company	24,466	62,264	81,110	**46,440**

Consolidated assets and liabilities

	At 31 December			
	2008 RMB'000 (Note 3)	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	**2011** **RMB'000**
Total assets	768,243	889,126	1,147,221	**1,452,726**
Total liabilities	502,468	574,631	857,435	**981,939**
Net assets	265,775	314,495	289,786	**470,787**

Note 1: The Company was incorporated in Bermuda on 18 August 2010 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 4 March 2011. The financial summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.

Note 2: Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares listed on the Stock Exchange during the period from the date of the Listing (i.e. 3 June 2011) to 31 December 2011.

Note 3: The figures for the three years ended 31 December 2008, 2009 and 2010 have been extracted from the prospectus of the Company dated 24 May 2011.