YOUYUAN INTERNATIONAL HOLDINGS LIMITED

優源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

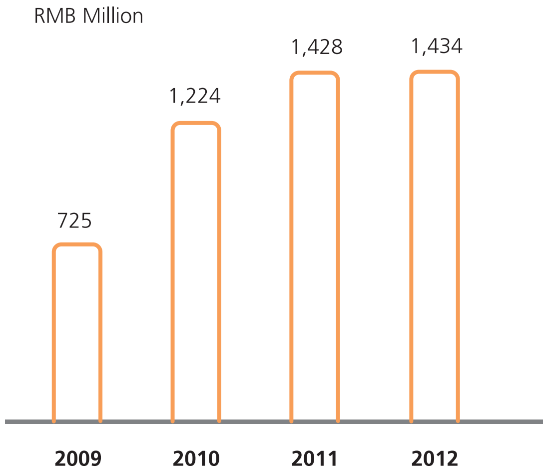
(Stock Code: 2268)

2012 ANNUAL REPORT

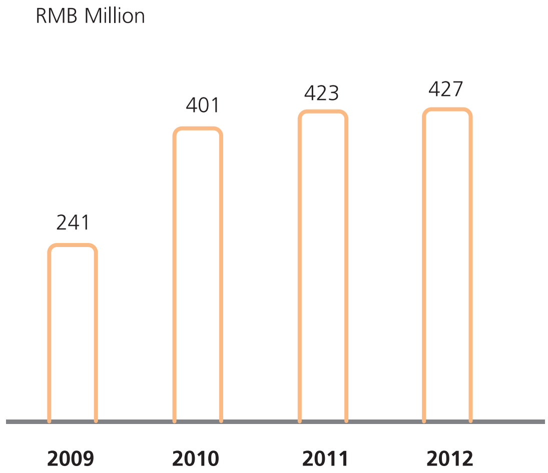
CONTENTS

FINANCIAL HIGHLIGHTS

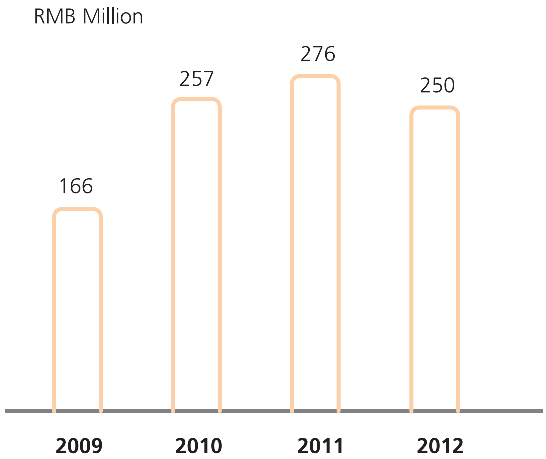
Revenue



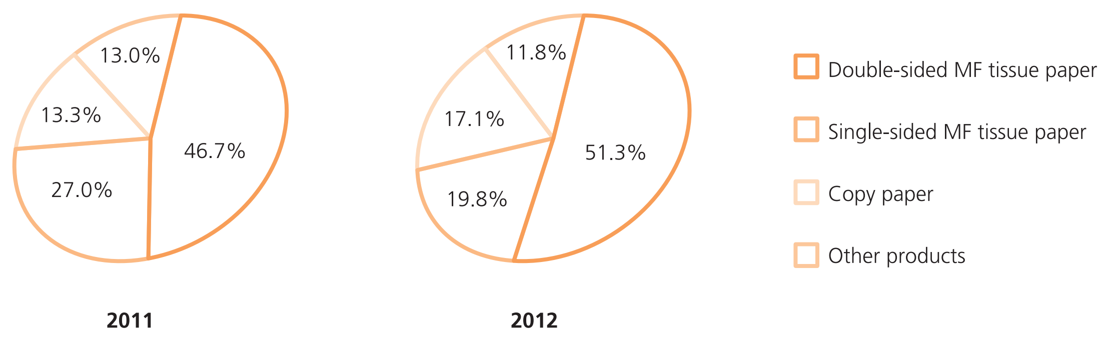
Gross Profit



Profit and total comprehensive income attributable to owners of the Company



Sales analysis by categories



Executive directors

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

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Company secretary

Mr Wong Yat Sum, *ACCA, HKICPA*

Authorised representatives

Mr Ke Wentuo
Mr Wong Yat Sum

Cayman Islands share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands
(effective from 26 January 2013)

Hong Kong share registrar

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

Registered office

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

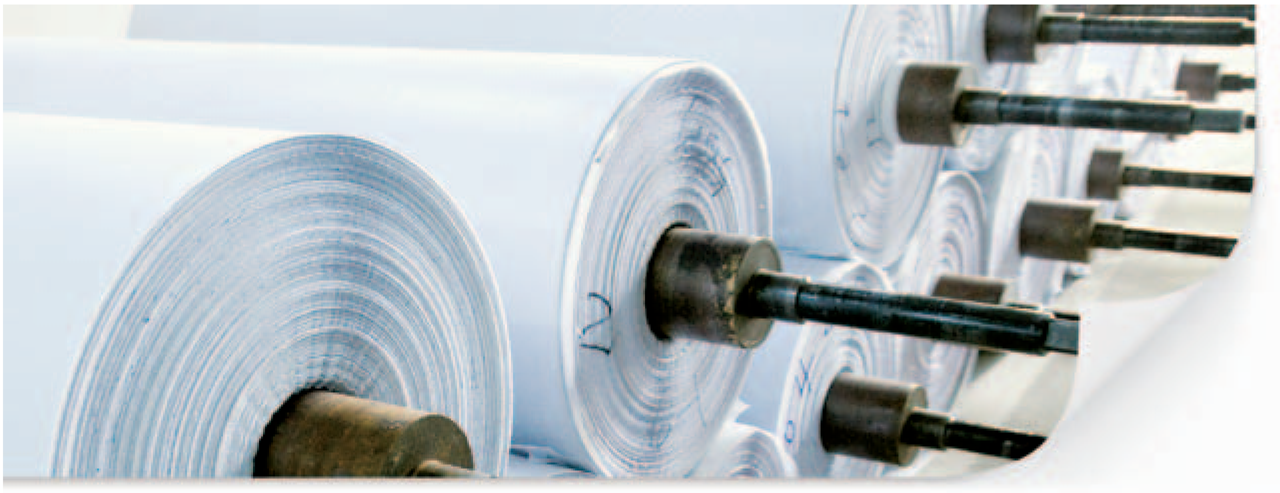
Headquarters in the PRC

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

Principal place of business in Hong Kong

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

CORPORATE INFORMATION



Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

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

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood Mallesons

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd.

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited annual results of the Group for the year ended 31 December 2012. Towards the end of the year, the recovery of the United States economy was gradually taking root following the country's smooth leadership succession and gradual rebounds of the stock and property markets. The situation in Europe, while significant improvements had yet to be in sight, is not heading for acute deterioration either. The same revival sentiment emerged in China since the fourth quarter of 2012 as leadership transition progressed smoothly while manufacturing and consumption activities started to pick up.

Business Review

For the year ended 31 December 2012, the Group's revenue was approximately RMB1,434.4 million (2011: RMB1,428.2 million), representing an increase of approximately 0.4% from that of the previous year. Profit and total comprehensive income attributable to owners of the Company decreased by approximately 9.3% to approximately RMB250.2 million (2011: RMB276.0 million). Basic earnings per share for the year amounted to approximately RMB0.250 (2011: RMB0.276) per share.

While the general environment in China from where the Group derived all of its sales remained challenging throughout the year, a consensus had gradually been established among participants in different sectors of the economy that a bottom in the latest down cycle had more or less been reached or passed. This consensus is pointing to anticipations of limited downsides, and in some sectors moderate revivals, on both manufacturing and domestic consumption activities.

This sentiment supported gradual firming of prices of raw pulp and recovered paper, a trend that has progressed in the Group's favor. When coupled with ongoing consolidation within the country's paper making industry in favor of large-scale, environmental friendly participants, the Group continued to enjoy growth in sales volume, albeit still with limited rebounds in prices. With our ongoing migration towards higher usage of recycled materials in our production, gradual deployment of our new de-inking facilities, we had been able to maintain our profit margin steady at relatively high levels.

According to forecast by China Paper Association, the country's overall paper consumption for the whole of 2012 still recorded a 3.6% growth, with the specialty paper category exhibiting a faster momentum. This is in line with our observation of an accelerating industry consolidation. The Ministry of Environmental Protection is currently in the middle of compiling a proposed policy package to put a cap on the total amount of contaminants during the Twelfth Five-Year Plan period, pointing to even more stringent and detailed management of emissions from the paper making industry, it remains to be seen as to how the industry will adapt to this policy. Nevertheless, the trend towards having fewer larger players with investments in emission reduction and high-efficiency facilities, and hence the increasing concentration of industry activities among the larger players, is expected to continue.

Especially within the specialty paper category, the overcapacity situation had not been as acute as in other categories. We still managed to sell more paper than we had in 2011, but at lower prices was due to weak pulp prices. That implied that the market was still maintaining its scale while consolidation was continuing. We envisage that as domestic consumption starts to revive, supply of raw pulp and recovered paper will tighten, allowing the Group to reap benefits from its proprietary raw materials production capacities.

Prospect and Strategy

Looking ahead, the Board of Directors of the Company (the "Board") believes that while the general demand dynamics for the Group's products remain challenging, the Group will continue to benefit from its leading industry position, large-scale production and ability to establish pricing benchmarks for other participants.

Analyses from major investment banks most pointed to increasingly promising signs of turning around in China's consumer sector since the beginning of the fourth quarter last year, with growths seen in sales prices, volumes and hence margins in both basic necessities and goods consumers bought on impulse with their discretionary incomes. These boded well with the bottoming-out of wood pulp prices since October 2012 that helped the Group protect prices and margins of its products. These improvements are set to continue in 2013.

Production for the first batch of facilities for wall paper backing paper is expected to commence in the first half of 2013. The Group believes that in the year 2013, our business will continue to derive benefits from ongoing industry consolidation and migration of China's domestic consumption sector towards usage of more environmental friendly packaging materials. The Group's scale and cost advantages will continue to strengthen as more new production and de-inking capacities commence operation. These will help create better value for our shareholders.

Acknowledgements

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

Ke Wentuo
Chairman

Hong Kong, 26 February 2013

BUSINESS REVIEW

A staged progress in resolving the European sovereign debt crisis, marked by release of a new round of borrowings to Greece, coupled with the launch by the United States of round three of quantitative easing in September 2012, did help to restore confidence and stem further deterioration of consumer confidence around the world. The smooth leadership transition following the conclusion of the 18th National Congress of the Communist Party of China in November 2012 and the rebound of China's purchasing manager index since the beginning of the fourth quarter of 2012 confirmed that China's ongoing recovery is gaining momentum.

Though headline figures still suggested that China's paper-making industry was struggling in a low-growth cycle, sentiment of industry participants had been bottoming out and a consensus for limited downside down the road had been receiving widespread support. Within the specialty paper segment of the industry, in particular, the impact from the commencement of operation of new capacities had been mitigated by the accelerated phasing out of obsolete, low-efficiency and non-environmental-friendly capacities. Softening of prices of raw pulp and recovered paper appeared to be slowing down. While the segment as a whole continued to experience volume output growth at lower prices, the downward adjustment pressure on prices was diminishing.

According to statistics released by China Paper Association, the capacity utilization rate of the paper making industry as a whole had been gradually picking up, from 97.3% in June 2012 to 97.9% in December 2012. Prices of raw pulp and finished paper products of various categories had been exhibiting signs of bottoming out. Meanwhile, the specialty paper segment, which the Group focuses on, continued to exhibit stronger resilience than other segments.

The release of a full list of key industrial operations that require pollution containment re-engineering works within the Twelve Five-Year Plan period by the State Council in October 2012 identified a number of key paper-making plants. This has been an added layer of endorsement to advances made by industry participants who had already invested in environmental friendly production facilities, including the Group. This will help the Group secure its leading position as a high-efficiency environmental friendly paper manufacturer.

While persisting in its core competences in wrapping tissue paper businesses, the Group made notable progresses in constructing capacities for high-end wall paper backing paper. Based on the current schedule, the new de-inking line will commence in first half of 2013. By then, the Group's total de-inking capacity will increase to 150,000 tonnes. In June 2012, the Group also acquired a land plot adjacent to its existing facilities in the Xiyuan production base to be part of its land reserves to support future development.

Segmental Analysis

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

Revenues generated from double-sided and single-sided machine-finished ("MF") tissue paper were RMB735.4 million and RMB283.5 million, contributed to approximately 51.3% and 19.8% of the Group's revenue for 2012, respectively.

Selected dryer equipment had been installed on two production lines of single-sided MF tissue paper with planned annual production capacities of 7,000 tonnes each, a move which enhanced the quality of products up to the same level as double-sided MF tissue paper.

One single-sided and one double-sided MF tissue paper production line with planned annual production capacities of 8,000 and 25,000 tonnes, respectively, commenced operation during the year under review.

Copy paper

During the year under review, revenue generated from copy paper was RMB245.9 million, representing an increase of 29.9% compared with that of the year ended 31 December 2011, and contributed to approximately 17.1% of the Group's revenue.

Wall paper backing paper

As at 31 December 2012, a new wall paper backing paper production line with a planned annual production capacity of 35,000 tonnes was under construction and has been scheduled to commence operation in the first half of 2013.

Other products

Other products, comprising paper towel and ivory boards, generated a revenue of RMB169.5 million during the period and contributed to approximately 11.8% of the Group's revenue for the year under review.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (by breakdown of locations from which sales were originated), with over 93% of Group's revenue for the year under review being derived from these two regions.

Operational Analysis

As at 31 December 2012, the Group operated 32 production lines with designed annual production capacities aggregating 285,000 tonnes, including 195,000 tonnes for double-sided and single-sided MF tissue paper, 44,000 tonnes for copy paper, 26,000 tonnes for paper towel and 20,000 tonnes for ivory boards.

The Group is also equipped with two de-inked pulp production lines with designed annual production capacities aggregating 90,000 tonnes for its own use at the Huaxiang factory. A new de-inked pulp production line with a designed annual production capacity of 60,000 tonnes at the Xiyuan factory will commence operation in the first half of 2013. This expansion of in-house de-inked pulp production capacity allows the Group to reap further benefits on cost.

All the future expansion of production capacities will be surrounding the Group's existing three production bases. The Group acquired a piece of land during the year under review to support future development in the Xiyuan factory.

Prospects

Looking ahead, the Board believes that while the general demand dynamics for the Group's products remain challenging, the Group will continue to benefit from its leading industry position, large-scale production and ability to establish pricing benchmarks for other participants in the industry.

The Board envisages that a rather broad-based recovery has emerged in China's consumer sectors. Signs of revival were seen in both consumer necessities like groceries and daily perishable goods, as well as goods that consumers bought with their discretionary earnings, thereby averting the broader downtrend in prices, volumes and margins seen in the three preceding quarters. These observations were in agreement with the bottoming-out of wood-pulp prices since the fourth quarter in the paper making industry. These had in turn brightened the outlook for the Group's product prices, and more importantly, the profit margins as the Group's cost advantages from its de-inking facilities start to kick in again.

Production for the first batch of the Group's production facilities for wall paper backing paper is expected to commence in the first half of 2013. The Group believes that in 2013, its business will continue to derive benefits from the ongoing industry consolidation and migration of China's domestic consumption sector towards usage of more environmental friendly packaging materials. The Group's scale and cost advantages will continue to strengthen as more new production and de-inking capacities commence operation. These will help create better value for shareholders of the Company.

With reference to the latest production capacity expansion plan of the Group, its total production capacity will increase by approximately 55,000 tonnes from 285,000 tonnes as at 31 December 2012 to 340,000 tonnes by the end of 2013. The Group believes that it is well-positioned to leverage its leading industry and market positions and strong production capacities to benefit from the sustaining growth in demand for wrapping tissue paper and other specialty paper in the mainland China.

Results

Revenue of the Group for the year ended 31 December 2012 was RMB1,434.4 million, representing an increase of approximately 0.4% from RMB1,428.2 million for the year ended 31 December 2011. Profit and total comprehensive income attributable to owners of the Company decreased by approximately 9.3% from RMB276.0 million for the year ended 31 December 2011 to RMB250.2 million for the year ended 31 December 2012. The decrease in profit and total comprehensive income attributable to owners of the Company was a result of the decrease in the overall average selling price of the Group's products, the impact of which was partly offset by an increase in sales volume of approximately 18,000 tonnes during the year under review.

Basic earnings per share for the year ended 31 December 2012 edged slightly down to RMB0.250 per share when compared with RMB0.276 per share for the year ended 31 December 2011, based on the profit attributable to owners of the Company of RMB250.2 million (For the year ended 31 December 2011: RMB276.0 million) and the weighted average of 1,000,000,000 shares (For the year ended 31 December 2011: 1,000,000,000 shares) in issue during the year under review.

Gross profit

Gross profit of the Group slightly increased from RMB422.9 million for the year ended 31 December 2011 to RMB427.2 million for the year ended 31 December 2012. Overall gross profit margin of the Group slightly improved from 29.6% for the year ended 31 December 2011 to 29.8% for the year ended 31 December 2012.

Other income and other gains and losses

Other income and other gains and losses of the Group turned around from a net loss of RMB4.7 million for the year ended 31 December 2011 to a net gain of RMB10.0 million for the year ended 31 December 2012, mainly due to a turnaround from net foreign exchange losses to net foreign exchange gains and there was loss on disposal of property, plant and equipment of RMB5.2 million for the year ended 31 December 2011.

Selling and distribution costs

Selling and distribution costs of the Group decreased by approximately 7.5% from RMB8.0 million for the year ended 31 December 2011 to RMB7.4 million for the year ended 31 December 2012, representing approximately 0.6% and 0.5% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 6.8% from RMB62.6 million for the year ended 31 December 2011 to RMB66.8 million for the year ended 31 December 2012, representing approximately 4.4% and 4.7% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, and the effect of releases of prepaid lease payments, property tax and employee benefits expenses.

Finance costs

Finance costs of the Group increased by approximately 80.2% from RMB20.3 million for the year ended 31 December 2011 to RMB36.5 million for the year ended 31 December 2012, primarily due to an increase in the average bank borrowings and higher average interest rates during the year under review.

Interest rates of bank loans ranged from 2.73% to 7.54% for the year ended 31 December 2012, compared with 4.78% to 7.87% for the year ended 31 December 2011.

Other expenses

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

Taxation

Tax charge slightly increased by approximately 1.4% from RMB43.3 million for the year ended 31 December 2011 to RMB43.8 million for year ended 31 December 2012, primarily due to the higher tax rate applied to the Group's subsidiaries in mainland China. The Group's effective tax rates for the year ended 31 December 2011 and 2012 were 13.6% and 14.9%, respectively. The increase in the effective tax rate was mainly due to expiry of the preferential tax rate of 15% for one of the Group's subsidiaries in mainland China on 31 December 2011.

Profit attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased from RMB276.0 million for the year ended 31 December 2011 to RMB250.2 million for the year ended 31 December 2012. The ratio of profit attributable to owners the Company to revenue narrowed from approximately 19.3% for the year ended 31 December 2011 to approximately 17.4% for the year ended 31 December 2012, mainly due to the decrease in the overall average selling price of the Group's products.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production. For the year ended 31 December 2012, the inventory turnover cycle was approximately 69.0 days (For the year ended 31 December 2011: 69.7 days).

The turnover cycle for trade receivables for the year ended 31 December 2012 lengthened to 75.2 days (For the year ended 31 December 2011: 67.2 days) primarily due to slightly longer credit periods granted to customers. The Group's standard credit term to customers is 60 days.

The turnover cycle for trade and bills payables was lengthened to 57.0 days (For the year ended 31 December 2011: 56.0 days), which is within the 60-day credit period granted by the Group's suppliers.

Borrowings

As at 31 December 2012, the Group's bank borrowings balance amounted to RMB927.7 million, of which RMB404.7 million will be due for repayment within the next twelve months (As at 31 December 2011: RMB532.1 million, of which RMB452.1 million will be due for repayment within the next twelve months).

As at 31 December 2012, the Group's bank borrowings amounted to RMB171.0 million, carried at fixed interest rates (As at 31 December 2011: RMB193.0 million).

As at 31 December 2012, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 28.2% (As at 31 December 2011: 24.2%).

Pledge of assets

As at 31 December 2012, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with aggregate carrying value of RMB208.1 million, RMB274.7 million and RMB45.2 million respectively (As at 31 December 2011: RMB460.1 million, RMB262.9 million and RMB4.9 million respectively) as collaterals backing the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2012, the Group invested RMB618.9 million (For the year ended 31 December 2011: RMB430.8 million) in construction of production facilities and equipment and prepaid lease payments.

Human Resources Management

As at 31 December 2012, the Group employed 1,877 staff (As at 31 December 2011: 2,134 staff) and the total remuneration for the year ended 31 December 2012 amounted to approximately RMB61.3 million (For the year ended 31 December 2011: RMB60.9 million). The Group's remuneration packages commensurate with the experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Bonus Issue of Shares

On 26 February 2013, the Board has resolved to recommend a bonus issue of one new share credited as fully paid for every ten shares held by shareholders whose names appear on the register of members of the Company on 13 May 2013. The relevant certificates for the bonus shares will be posted on or about 28 May 2013.

The above proposed bonus shares are entitled to the recommended final dividend for 2012.

Dividend

The Board has resolved to recommend payment of a final dividend for the year ended 31 December 2012 of HK5.3 cents per share (For the year ended 31 December 2011: HK6.8 cents per share), totaling HK$53,000,000, approximately amounted to RMB42,500,000. As the new shares to be issued under the bonus issue will be entitled to the said proposed final dividend, it is expected that, upon completion of the bonus issue, the total amount of dividend payable will be increased to HK$58,300,000. It is expected that the final dividend will be paid on or about 20 June 2013 to shareholders whose names appear on the register of members of the Company on 11 June 2013.

Closure of Register of Member

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

(i) From 29 April 2013 to 3 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 26 April 2013 for registration of transfer.

(ii) From 9 May 2013 to 13 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the proposed issue of bonus shares (which are expected to be issued on or about 28 May 2013), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 8 May 2013 for registration of transfer.

(iii) From 7 June 2013 to 11 June 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the proposed final dividend (payable on or about 20 June 2013), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 6 June 2013 for registration of transfer.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Ke Wentuo (柯文托), aged 56, is the founder of our Group and Chairman of our Company. Mr Ke was appointed as Executive Director on 12 October 2009. He is primarily responsible for our overall strategies, planning and business development. Mr Ke graduated and earned a college diploma from Fujian College of Forestry (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr Ke has more than 15 years of experience in paper manufacturing. Mr Ke has been a vice-president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Tenth Quanzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議第十屆泉州委員會) since December 2009. Mr Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making* (中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr Ke Jixiong (柯吉熊), aged 29, joined our Group in 2002 and is the chief executive officer of our Company. Mr Ke Jixiong was appointed as an Executive Director on 6 January 2010. Mr Ke Jixiong is the son of Mr Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distant learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award* (晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference* (中國人民政治協商會議福建省晉江市委員會). He oversees the Group's business development directions, sales and distribution, production management, R&D, quality control, establishment and measurement of sales and production performance targets.

Mr Cao Xu (曹旭), aged 48, joined our Group in 1997 and was appointed as an Executive Director on 6 January 2010. Mr Cao is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and earned a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三冶金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr Zhang Guoduan (張國瑞), aged 49, joined our Group in 2008 and was appointed as an Executive Director on 6 January 2010. In 1998, Mr Zhang completed an 18-month course at Xiamen University* (廈門大學) majoring in economics and management. Mr Zhang has 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

* for identification only

Independent Non-Executive Directors

Prof. Zhang Daopei (張道沛), aged 76, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Zhang graduated from Dongbei Industrial College* (東北工學院) (now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University* (河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建造紙學會) from 1994 to 2007.

Prof. Chen Lihui (陳禮輝), aged 47, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Chen graduated from Fuzhou University* (福州大學) with a bachelor of engineering degree majoring in machine manufacturing processes and equipment in 1987. He then earned his master's degree in 1996 and his doctorate degree in 2003 majoring in pulp and paper engineering from South China University of Technology* (華南理工大學). From July 1987 to October 2000, Prof. Chen was with the Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)), working in various capacities as an assistant professor, a lecturer, an associate professor and an instructor for master s degree research students. Since November 2000, Prof. Chen was with the Material Engineering College* (材料工程學院) of the Fujian Agriculture and Forestry University* (福建農林大學), working at various times as a professor, an instructor of doctorate and master degree students and a colleage dean. Prof. Chen was awarded the Fujian Young Scientist Award* (福建青年科技獎) in 2006 for his outstanding achievements in technology, and has won awards for numerous research projects in China, including the Fujian Technology Award* (福建省科學技術獎) in December 2003, 2004, 2005 and February 2009, and the Fuzhou Technological Advancement Award* (福州市科學技術進步獎) in September 2008.

Mr Chow Kwok Wai (周國偉), aged 46, was appointed as an Independent Non-executive Director on 6 January 2010. Mr Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member and a registered Certified Tax Adviser of the Taxation Institute of Hong Kong. He has over 20 years' of experience in accounting, financial management and corporate finance. He is the Company Secretary of Silver Grant International Industries Limited ("Silver Grant") and was an executive director of Silver Grant (stock code: 171) until 28 December 2012. He is also a non-executive director of Cinda International Holdings Limited ("Cinda") (stock code: 111) and an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. ("Lijun") (stock code: 2005). The shares of Silver Grant, Cinda and Lijun are listed on the Main Board of The Stock Exchange of Hong Kong Ltd.

* for identification only

SENIOR MANAGEMENT

Mr Lin Wenfeng (林文峰), aged 44, is the assistant to our Chairman. Mr Lin joined our Group in 2008 and is responsible for assisting our Chairman in administration and management of our Group. Mr Lin graduated with a college diploma from Anhui University of Finance & Economics* (安徽財經大學) majoring in finance and accounting in 2005 and graduated from Anhui University* (安徽大學), majoring in law in 2008. Prior to joining our Group, Mr Lin was with Bank of China Jinjiang Branch between October 1988 and May 2007, where he was responsible for the bank's credit management, credit limit management and overall branch management.

Mr Wong Yat Sum (黃一心), aged 36, is our Chief Financial Officer and our Company Secretary. Mr Wong joined our Group in 2009 and is responsible for the budget, financial management and control of our Group. Mr Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. Prior to joining our Group, Mr Wong was a financial controller for a wood-flooring company in Shanghai, China, where he was responsible for finance, treasury, business planning and risk management.

Mr Liao Chunxiang (廖春祥), aged 48, is Deputy General Manager of Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"). Mr Liao joined our Group in 2008 and is responsible for managing manufacturing processes at Huaxiang. As Mr Liao is also a member of our research and development centre, where he participates in our research and development projects. Mr Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr Ke Hongchi (柯鴻池), aged 38, is Sales Manager of our Group and is responsible for business development and sales. Mr Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and joined our Group in 1994. Mr Ke Hongchi is responsible for sales development and the management of the sales team of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Since the establishment of Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Huaxiang in 2006, he has also been responsible for overseeing sales development and managing the sales team of Xiyuan and Huaxiang.

Mr Chen Changxing (陳長興), aged 49, is Manager of our research and development centre. Mr Chen joined our Group in 2006 and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

* for identification only

Mr Shuai Liangming (帥亮明), aged 48, is Quality Control Manager of Huaxiang. Mr Shuai joined our Group in 2008 and is responsible for quality control at Huaxiang. As Mr Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr Wu Xiaoxi (吳曉曦), aged 51, is Head of Electrical Engineering Department of Huaxiang. Mr Wu joined our Group in 2000 and is responsible for the management of matters relating to electrical engineering at Huaxiang. As Mr Wu is also member of our research and development centre, he also participates in our research and development projects. Mr Wu graduated from Fuzhou University* (福州大學) in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Mr Chen Taibin (陳太斌), aged 35, is Manager of Human Resources Department of Youlanfa. Mr Chen joined our Group in 2009 and is responsible for hiring and training at Youlanfa. Mr Chen graduated and obtained a college diploma from Fujian Normal School* (福建師範專科學校) in 1995 majoring in chemistry. Prior to joining our Group, Mr Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.* (福建省晉江三源食品實業有限公司) as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms Yan Yahong (顏雅紅), aged 30, is Deputy Manager of our Purchasing Department. Ms Yau joined our Group in 2009 and is responsible for raw materials purchasing of our Group. Ms Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

* for identification only

Corporate Governance Code

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

Our Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, our Directors consider that our Company has complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

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

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

Model Code for Securities Transactions

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

Board of Directors

(i) Board Composition

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

As at the date of this annual report, the board of Directors ("Board") was consisted of the following Directors:

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

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

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

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

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

(ii) Board Functions and Duties

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

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

(iii) Board Meetings

During the Review Period, there were four board meetings held, at which the Directors approved, among other things, the annual results of the Group for the year ended 31 December 2011 and the interim results for the six months ended 30 June 2012.

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

(iv) Attendance Record

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

	Attendance at meetings
Executive directors	
Mr Ke Wentuo (Chairman)	4/4
Mr Ke Jixiong (Chief Executive Officer)	4/4
Mr Cao Xu	4/4
Mr Zhang Guoduan	4/4
Independent non-executive directors	
Prof. Zhang Daopei	4/4
Prof. Chen Lihui	3/4
Mr Chow Kwok Wai	4/4

(v) Independent Non-executive Directors

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

The Company has also received a written annual confirmation from each of the independent non-executive Directors in respect of their independence. After considering the factors set out in Rule 3.09 of the Listing Rules, the Board considers that all independent non-executive Directors continue to be independent throughout the Review Period.

(vi) Appointment and Re-election of Directors

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

Mr Cao Xu, Prof. Zhang Daopei and Prof. Chen Lihui will retire from the Board by rotation at the forthcoming annual general meeting of the Company and, being eligible will offer themselves for re-election.

(vii) Terms of appointment of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 27 May 2010, and each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 27 May 2010, renewable upon expiry in both cases, subject to compliance of the Listing Rules and the Articles.

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

(viii) Directors' Remuneration

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

(ix) Directors' Training

According to the code provision A.6.5 of the New Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, function and duties of the Directors.

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

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

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

Audit Committee

Our Company has established an audit committee on 30 April 2010 with written terms of reference based upon the provisions and recommended practices of the New Code. The primary responsibilities of our audit committee are to, among other things, review and supervise financial reporting processes and internal control system of the Group. As at 31 December 2012, our audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive Directors. Mr Chow Kwok Wai is the chairman of our audit committee.

During the Review Period, the audit committee held two meeting and subsequently on 26 February 2013, the audit committee held a meeting. The members of audit committee reviewed and discussed with the external auditors of the Company the Group's audited financial statements for the year ended 31 December 2011 and 2012 and the unaudited interim financial statements for the six months ended 30 June 2012. They were of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

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

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

Auditor's Remuneration

For the year ended 31 December 2012, the total fee paid/payable in respect of audit services to the external auditor of our Group, Deloitte Touche Tohmatsu, was approximately RMB2.2 million.

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

Company Secretary

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

Director's Responsibility on the Financial Statements

Our Directors acknowledge that it is their responsibility to prepare accounts of our Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to our Board to enable it to make informed assessments of the financial and other decisions.

Internal Control

The internal control system has been designed to safeguard the assets of our Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

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

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

Our Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended 31 December 2012, our Board considered that the internal control system of our Group was adequate and effective and our Company had complied with the code provisions on internal control as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the New Code. The nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee.

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

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

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

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

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

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the New Code. As at 31 December 2012, our remuneration committee comprised Mr Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihui. Prof. Chen Lihui is the chairman of the remuneration committee.

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

Emolument Policies

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

During the Review Period, the remuneration committee held one meeting. The members of remuneration committee reviewed and discussed the policies for the remuneration of executive directors, the performances of executive directors during the Review Period.

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

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

Meeting with Independent Non-executive Directors

During the Review Period, the Chairman of the Company held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 14 March 2012 to review and discuss, among other things, the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views on Board meetings without restrictions.

Corporate Governance Functions

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

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

Communication with Shareholders

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

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

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

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

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

Shareholders' Rights

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

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

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

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

(ii) Shareholder's Enquiries

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

Constitutional Documents

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

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries for the year ended 31 December 2012.

Corporate Reorganisation

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

Principal Activities

The principal activity of our Company is investment holding. Particulars of the subsidiaries of our Company are set out in note 31 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 35 of this report.

The Directors recommend the payment of a final dividend of HK5.3 cents (for the year ended 31 December 2011: HK6.8 cents) per ordinary share. Such dividend is to be approved by shareholders of the Company at the forthcoming annual general meeting of the Company ("AGM") to be held on 3 May 2013.

Bonus issue of shares

The Board has resolved to recommend a bonus issue of one new share credited as fully paid for every ten shares held by shareholders whose names appear on the register of members of the Company on 13 May 2013. If the bonus issue is approved by shareholders of the Company at the AGM, the relevant certificates for the bonus shares will be posted on or about 28 May 2013.

The above proposed bonus shares are entitle to the recommended final dividend for 2012.

Reserves

Movements in reserves of the Group during the year ended 31 December 2012 are set out in page 37 of this report.

As at 31 December 2012, the reserves of our Group available for distribution to Shareholders amounted to RMB1,079,075,000 (as at 31 December 2011: RMB867,005,000).

Property, Plant and Equipment

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

Share Capital

Details of the share capital of the Company are set out in note 24 to the consolidated financial statements.

Directors

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

Financial Summary

A financial summary of the Group for the last five years are set out on page 78 of this report.

Borrowings

Details of bank borrowings of the Group as at 31 December 2012 are set out in note 23 to the consolidated financial statements.

Share Option Scheme

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

(1) The purpose of the Scheme

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

(2) Who may join

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

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

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

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

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

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

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

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

(3) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as of 27 May 2010, i.e. 100,000,000 Shares.

(4) Maximum entitlement of each participant

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

(5) Offer period

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

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

(6) Minimum holding period, vesting and performance target

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

(7) Amount payable for Options

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

(8) Subscription Price

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

(a) the nominal value of a Share;

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

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

(9) Life of Share Option Scheme

Subject to the terms of this Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Scheme.

As at 31 December 2012, no options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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

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

As at 31 December 2012, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

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

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

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

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

Note 2: The interest in 33,000,000 Shares refer to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2012, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

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

Note 1: Mr Ke Wentuo is deemed to be interested in the Shares held by Smart Port by virtue of Smart Port being wholly owned by Mr Ke Wentuo.

Note 2: Ms Cai Lishuang is deemed to be interested in the Shares held by Denron by virtue of Denron being wholly owned by Ms Cai Lishuang. In addition, she is deemed to be interested in the Shares held by Smart Port, which is wholly owned by Mr Ke Wentuo, by virtue of her being the spouse of Mr Ke Wentuo.

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

Except as disclosed above, as at 31 December 2012, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

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

Contracts of Significance

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

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

Directors' Interests in Competing Business

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

Connected Transaction

On 27 June 2012, Fujian Xiyuan Paper Co., Ltd.* (福建希源紙業有限公司, "Xiyuan"), a wholly-owned subsidiary of the Company, entered into the agreement with Zhangzhou Huarong Paper Company Limited* (漳州華榮紙業有限公司, "Huarong") pursuant to which Huarong has agreed to sell and Xiyuan has agreed to purchase a parcel of land and a plant. Huarong is a company 100% beneficially owned by Mr Zhuang Sixiong, the brother-in-law of Mr Ke Wentuo, Chairman and an executive Director of the Company. Under the Listing Rules, the acquisition constituted a connected transaction under Chapter 14A of the Listing Rules.

The assets acquired by Xiyuan included a parcel of land with a site area of 84,998 square meters pursuant to the State-owned Land Use Rights Certificate — Long Guo Yong (2006 Jiao Zi) No. 0188, with a term of 50 years commencing on 12 October 2006 for industrial use and a plant erected on the Land with a total floor area of approximately 8,936.05 square meters with a term of 30 years commencing on 30 September 2011 for warehousing purpose.

The consideration was determined based on a valuation report compiled by Fujian Lianhe Zhonghe Asset Valuation Co., Ltd.* (福建聯合中和資產評估有限公司), an independent valuer, pursuant to which the fair value of the land was approximately RMB32,129,000 and the plant was approximately RMB10,566,000 as of 15 May 2012. In the opinion of the Directors (including the independent non-executive Directors), the terms of the agreement are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

Save as disclosed above, there were no other transaction which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 5.5% (2011: 5.2%) and 20.8% (2011: 22.9%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 25.7% (2011: 34.2%) and 77.2% (2011: 83.4%) of the Group's total purchases respectively.

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

Deed of Non-competition

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

Pre-emptive Rights

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

* *for identification only*

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

For the year ended 31 December 2012, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

Use of Net Proceeds from Initial Public Offering

The Shares were listed on 27 May 2010 on the Main Board of the Stock Exchange. The total net proceeds from the listing after the issue of the Shares amounted to approximately RMB510.5 million, which are intended to be applied as set out in the section headed "Use of Proceeds" of the Prospectus.

	Intended use of proceeds stated in the Prospectus	Amount of net proceeds RMB'million	Proceeds utilized at of 31 December 2012 RMB'million
Purchase of machinery and equipment relating to new production facilities	45%	229.7	229.7
Construction of new plant and supporting facilities to support production of new products and increases to production capacity	40%	204.2	204.2
Working capital and other general corporate purposes	10%	51.1	51.1
Marketing expenses for growing our existing business in the PRC	5%	25.5	6.9
Total	100%	510.5	491.9

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the year ended 31 December 2012.

Auditor

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 26 February 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 77, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 February 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	7	**1,434,379**	1,428,235
Cost of sales		**(1,007,197)**	(1,005,292)
Gross profit		**427,182**	422,943
Other income and other gains and losses	9	**9,996**	(4,728)
Selling and distribution expenses		**(7,410)**	(8,007)
Administrative expenses		**(66,817)**	(62,578)
Finance costs	10	**(36,538)**	(20,281)
Other expenses		**(32,298)**	(8,092)
Profit before tax	11	**294,115**	319,257
Income tax expense	12	**(43,875)**	(43,290)
Profit and total comprehensive income for the year attributable to the owners of the Company		**250,240**	275,967
		RMB	RMB
Earnings per share – Basic	16	**0.250**	0.276

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012	2011
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	1,812,118	1,355,972
Prepaid lease payments	18	372,387	275,269
Deposits paid for acquisition of property, plant and equipment		37,106	177,754
Deposits paid for acquisition of land use right		—	60,683
		2,221,611	1,869,678
CURRENT ASSETS			
Inventories	19	143,288	237,684
Trade and other receivables	20	330,212	307,780
Prepaid lease payments	18	7,916	5,800
Pledged bank deposits	21	45,170	4,857
Bank balances and cash	21	336,795	98,121
		863,381	654,242
CURRENT LIABILITIES			
Trade and other payables	22	207,491	210,575
Income tax payables		11,239	9,038
Bank borrowings	23	404,735	452,120
		623,465	671,733
NET CURRENT ASSETS (LIABILITIES)		239,916	(17,491)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,461,527	1,852,187
NON-CURRENT LIABILITY			
Bank borrowings	23	523,000	80,000
		1,938,527	1,772,187
CAPITAL AND RESERVES			
Share capital	24	87,680	87,680
Reserves		1,850,847	1,684,507
TOTAL EQUITY		1,938,527	1,772,187

The consolidated financial statements on pages 35 to 77 were approved and authorised for issue by the Board of Directors on 26 February 2013 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated profits**	**Total**
	RMB'000	RMB'000	RMB'000 (Note 25)	RMB'000	RMB'000
At 1 January 2011	87,680	451,469	393,202	563,869	1,496,220
Profit and total comprehensive income for the year	—	—	—	275,967	275,967
Transfer to accumulated profits (Note)	—	(55,200)	—	55,200	—
Appropriation	—	—	28,031	(28,031)	—
At 31 December 2011 and 1 January 2012	87,680	396,269	421,233	867,005	1,772,187
Profit and total comprehensive income for the year	—	—	—	**250,240**	**250,240**
Dividends recognised as distribution (Note 15)	—	—	—	**(83,900)**	**(83,900)**
Transfer to accumulated profits (Note)	—	**(71,200)**	—	**71,200**	—
Appropriation	—	—	**25,470**	**(25,470)**	—
At 31 December 2012	**87,680**	**325,069**	**446,703**	**1,079,075**	**1,938,527**

Note: Pursuant to board resolutions of directors, the directors were authorised, and resolved, to transfer RMB71,200,000 (2011: RMB55,200,000) from share premium account to accumulated profits. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**294,115**	319,257
Adjustments for:		
Depreciation of property, plant and equipment	**56,899**	44,066
Finance costs	**36,538**	20,281
Release of prepaid lease payments	**6,597**	5,822
Loss on disposal of property, plant and equipment	**62**	5,234
Interest income	**(1,599)**	(941)
Overprovision of listing and related expenses	**—**	(3,092)
Operating cash flows before movements in working capital	**392,612**	390,627
Decrease (increase) in inventories	**94,396**	(91,188)
Increase in trade and other receivables	**(22,432)**	(43,451)
Increase in trade and other payables	**1,083**	2,277
Cash generated from operations	**465,659**	258,265
Income taxes paid	**(41,674)**	(47,204)
NET CASH FROM OPERATING ACTIVITIES	**423,985**	211,061
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(362,824)**	(443,617)
Placement of pledged bank deposits	**(45,170)**	(9,047)
Payments for prepaid lease payments	**(45,148)**	(66,087)
Withdrawal of pledged bank deposits	**4,857**	6,045
Interest received	**1,599**	941
Proceeds from disposal of property, plant and equipment	**—**	3,904
NET CASH USED IN INVESTING ACTIVITIES	**(446,686)**	(507,861)
FINANCING ACTIVITIES		
New bank borrowings raised	**1,013,735**	258,000
Repayments of bank borrowings	**(618,120)**	(279,560)
Interest paid	**(50,340)**	(30,085)
Dividend paid	**(83,900)**	—
Payments of transaction costs attributable to issue of new shares	**—**	(17,068)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**261,375**	(68,713)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**238,674**	(365,513)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**98,121**	463,634
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**336,795**	98,121

1. GENERAL

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

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

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

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

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

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

Amendments to IFRS 7	Financial Instruments: Disclosures – Transfer of Financial Assets
Amendments to IAS 1	As part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in 2012
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above new and revised Standards, Amendments and Interpretations in current year has had no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

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

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

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle, except for the amendments to IAS 1[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 January 2015
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2014

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

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate the adoption of IFRS 9 in the future will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the financial instruments as at 31 December 2012.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income introduce* new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012, with earlier application permitted.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

Revenue recognition

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

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

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

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

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 as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

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

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

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

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

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

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

Leasehold land and building

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at 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.

Government grants

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

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

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

Retirement benefit costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax are 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets

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

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

Inventories

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

Financial Instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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 60 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 receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities and equity instrument

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

The Group derecognizes 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year. The carrying amount of property, plant and equipment is RMB1,812,118,000 (2011: RMB1,355,972,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade receivables is RMB309,901,000 (2011: RMB281,212,000). There is no allowance for doubtful debts as at 31 December 2012 and 2011.

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	691,866	384,190
Financial liabilities:		
Amortised cost	1,097,505	708,910

6b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities including bank balances and cash, note payables and bank borrowings at the end of the reporting period are as follows:

	Assets		Liabilities	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Hong Kong Dollar ("HK$")	4,976	4,279	40,225	—
United Sates Dollar ("US$")	1,158	4,939	93,510	19,103

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used for management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

	HK$		US$	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**1,762**	(214)	**4,618**	708

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate pledged bank deposits and bank borrowings. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see notes 23 for details of these borrowings).

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

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

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk which relates primarily to variable-rate bank balances and bank borrowings (see notes 21 and 23 for details of these balances). The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

For the bank balances, if the interest rates for benchmark saving rate had been increased/decreased by 10 basis points and other variables were held constant, the Group's post-tax profit for the year ended would increase/decrease by approximately RMB253,000 (2011: RMB74,000) for the year ended 31 December 2012.

For the bank borrowings, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB2,838,000 (2011: RMB1,272,000) for the year ended 31 December 2012.

Credit risk

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

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

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

The Group's concentration of credit risk by geographical location is solely in the People's Republic of China (the "PRC"), as at 31 December 2012 and 2011.

The Group has concentration of credit risk as 21% (2011: 23%) of the total trade receivables was due from the Group's five largest customers in the paper industry in PRC as at 31 December 2012. The management is of the view that these trade debtors of the Group have good trade records without default history and consider that the trade receivables from these five customers are recoverable. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

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.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2012, the Group had available unutilised banking facilities of approximately RMB878,510,000 (2011: RMB763,776,000).

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

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

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	Undiscounted cash flows RMB'000	Total Carrying amount RMB'000
At 31 December 2012						
Trade and other payables	—	169,770	—	—	169,770	169,770
Bank borrowings						
– fixed rate	7.20	174,079	—	—	174,079	171,000
– variable rate	6.35	277,576	161,616	408,462	847,654	756,735
		621,425	161,616	408,462	1,191,503	1,097,505
At 31 December 2011						
Trade and other payables	—	176,789	—	—	176,789	176,790
Bank borrowings						
– fixed rate	6.42	198,282	—	—	198,282	193,000
– variable rate	5.33	265,542	49,089	40,260	354,891	339,120
		640,613	49,089	40,260	729,962	708,910

6c. Fair value

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

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

7. REVENUE

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

	2012 RMB'000	2011 RMB'000
Revenue from the sales of:		
Double-sided Machine Finished ("MF") tissue paper	**735,415**	667,347
Single-sided MF tissue paper	**283,546**	385,683
Copy paper	**245,919**	189,353
Other products	**169,499**	185,852
	1,434,379	1,428,235

8. SEGMENT INFORMATION

(a) Products within each operating segment

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

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

- Double-sided MF tissue paper – manufacturing for sale of double-sided MF tissue paper;
- Single-sided MF tissue paper – manufacturing for sale of single-sided MF tissue paper;
- Copy paper – manufacturing for sale of copy paper;
- Wall paper backing paper – manufacturing for sale of wall paper backing paper;
- Other products – manufacturing for sale of paper towels and ivory boards.

During the year ended 31 December 2012, the Group has started the wall paper backing paper operation, which is reported as a separate operating segment to the Chief Executive Officer of the Company for the purposes of resource allocation and performance assessment. The production facilities of the wall paper backing paper operation is still under construction and planned to commence operation in the first half of 2013.

There are certain expenses arising from the wall paper backing paper operation for the year ended 31 December 2012 and such expenses are regularly reviewed by the chief operating decision maker. However, as the amounts are insignificant, no amount is shown under the segment results of the wall paper backing paper.

8. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Double-sided MF tissue paper	**735,415**	667,347	**238,915**	212,914
Single-sided MF tissue paper	**283,546**	385,683	**90,822**	127,185
Copy paper	**245,919**	189,353	**78,476**	55,457
Wall paper backing paper	**—**	—	**—**	—
Other products	**169,499**	185,852	**18,969**	27,387
	1,434,379	1,428,235	**427,182**	422,943
Other income and other gains and losses			**9,996**	(4,728)
Selling and distribution expenses			**(7,410)**	(8,007)
Administrative expenses			**(66,817)**	(62,578)
Finance costs			**(36,538)**	(20,281)
Other expenses			**(32,298)**	(8,092)
Profit before tax			**294,115**	319,257

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the gross profit of each operating segment. This is the measure reported to Chief Executive Officer for the purposes of resources allocation and performance assessment.

8. SEGMENT INFORMATION (continued)

(c) Segment assets

	2012 RMB'000	2011 RMB'000
Double-sided MF tissue paper	489,083	438,019
Single-sided MF tissue paper	107,876	92,086
Copy paper	144,212	133,760
Wall paper backing paper	178,711	24,043
Other products	127,618	83,784
Total segment assets	1,047,500	771,692
Unallocated		
– Property, plant and equipment	796,954	617,271
– Prepaid lease payments	380,303	281,069
– Deposit paid for acquisition of property, plant and equipment	37,106	177,754
– Deposit paid for acquisition of land use right	—	60,683
– Inventories	110,952	204,693
– Trade and other receivables	330,212	307,780
– Pledged bank deposits	45,170	4,857
– Bank balances and cash	336,795	98,121
Consolidated assets	3,084,992	2,523,920

Segment assets include certain property, plant and equipment and inventories used specifically for the production of different products.

(d) Segment liabilities

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

8. SEGMENT INFORMATION (continued)

(e) Other segment information

	Double-sided MF tissue paper RMB'000	Single-sided MF tissue paper RMB'000	Copy paper RMB'000	Wall paper backing paper RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Year ended 31 December 2012							
Addition to property, plant and equipment and prepaid lease payments	**45,030**	**8,410**	**7,834**	**154,668**	**42,285**	**360,711**	**618,938**
Depreciation and amortisation	**16,609**	**3,978**	**6,856**	—	**8,016**	**28,037**	**63,496**
Loss on disposal of property, plant and equipment	—	—	—	—	—	**62**	**62**
Year ended 31 December 2011							
Addition to property, plant and equipment and prepaid lease payments	99,727	391	10,059	24,043	49,756	246,819	430,795
Depreciation and amortisation	15,753	4,531	5,150	—	3,396	21,058	49,888
Loss on disposal of property, plant and equipment	—	—	—	—	—	5,234	5,234

(f) Geographical information

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

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

(g) Information about major customers

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

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Bank interest income	1,599	941
Loss on disposal of property, plant and equipment	(62)	(5,234)
Net foreign exchange gain (losses)	1,925	(2,963)
Government grants (Note)	2,556	1,090
Others	3,978	1,438
	9,996	(4,728)

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC for developing innovative production technology and maintaining a good reputation in the business community in 2011 and 2012. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	50,340	31,057
Less: Amounts capitalised	(13,802)	(10,776)
	36,538	20,281

During the year ended 31 December 2012, the borrowing costs RMB13,802,000 (2011: RMB10,776,000) capitalised are attributable to funds borrowed specifically for the purpose of constructing particular qualifying assets.

11. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Employee benefits expenses (including directors):		
Salaries and other benefits	59,132	58,830
Retirement benefits scheme contributions	2,210	2,030
	61,342	60,860
Depreciation of property, plant and equipment	56,899	44,066
Release of prepaid lease payments	6,597	5,822
Total depreciation and amortisation expenses	63,496	49,888
Auditors' remuneration	2,263	2,250
Reversal of overprovision of listing expenses (included in other expenses) (Note 1)	—	(3,092)
Research and development cost recognised as an expense (included in other expenses) (Note 2)	32,298	11,184
Cost of inventories recognised as expenses	1,007,197	1,005,292

Notes:

(1) The amount represents the reversal of overprovision of professional fees and other expenses related to the listing of the shares of the Company on the Stock Exchange.

(2) The amount represents research and development expenses on energy conservation, consumption reduction, environment protection system and application of recycled materials as raw materials across productions (the "Research"). The amount is recognised as an expense in profit or loss as the management of the Company considers that the Research has not yet been technically feasible for use.

12. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Income tax expense charge for the year	43,875	43,290

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

Sunwell Trading (HK) Company Limited ("Sunwell") was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax for both years.

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

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

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

Youlanfa obtained a high and new technology enterprise certificate during the year ended 31 December 2010 and was entitled to a preferential tax rate of 15% for three year period from 2009 to 2011, subject to annual review by the relevant tax authority. Youlanfa is subject to tax rate at 25% in current year.

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

	2012 RMB'000	2011 RMB'000
Profit before tax	294,115	319,257
Tax at the PRC statutory EIT rate of 25%	73,529	79,814
Effect of tax exemptions and tax concession	(30,691)	(39,677)
Tax effect of expenses not deductible for tax purpose	1,643	3,500
Others	(606)	(347)
	43,875	43,290

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB1,098,064,000 at 31 December 2012 (2011: RMB820,468,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2011: 8) directors and the chief executive were as follows:

For the year ended 31 December 2012

	Directors							
	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihui RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	98	98	146	342
Other emoluments								
Salaries and other benefits	1,281	1,038	130	130	—	—	—	2,579
Contributions to retirement benefits schemes	14	14	10	11	—	—	—	49
Performance related incentive payments								
Share-based payment	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—
Total emoluments	1,295	1,052	140	141	98	98	146	2,970
Pensions paid to directors	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive by:								
The Company	—	—	—	—	—	—	—	—
The Company's subsidiaries	—	—	—	—	—	—	—	—
	1,295	1,052	140	141	98	98	146	2,970

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

For the year ended 31 December 2011

	Directors								
	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Mr. Paul Steven Wolansky (Note) RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihui RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	20	100	99	149	368
Other emoluments									
Salaries and other benefits	1,281	1,038	133	133	—	—	—	—	2,585
Contributions to retirement benefits schemes	14	14	10	9	—	—	—	—	47
Performance related incentive payments									
Share-based payment	—	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—	—
Total emoluments	1,295	1,052	143	142	20	100	99	149	3,000
Pensions paid to directors	—	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive by:									
The Company	—	—	—	—	—	—	—	—	—
The Company's subsidiaries	—	—	—	—	—	—	—	—	—
	1,295	1,052	143	142	20	100	99	149	3,000

Note: Mr. Paul Steven Wolansky resigned with effect from 27 May 2011.

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

For the years ended 31 December 2012 and 2011, neither the chief executive nor any of the directors waived or agreed to waive any emoluments.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors and chief executive of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	1,288	1,763
Contributions to retirement benefits schemes	26	27
	1,314	1,790

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
HK$ nil to HK$1,000,000 (equivalent to RMB nil to RMB805,000)	2	2
HK$1,000,001 to HK$1,500,000 (equivalent to RMB805,001 to RMB1,207,000)	1	—
HK$1,500,001 to HK$2,000,000 (equivalent to RMB1,207,001 to RMB1,610,000)	—	1

No emoluments have been paid to these individuals as an inducements to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2012 and 2011.

15. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Dividends recognised as distribution during the year:		
2011 final dividend of HK$0.068 per share (2010: Nil)	55,200	—
2012 interim dividend of HK$0.035 per share (2011: Nil)	28,700	—
	83,900	—
Proposed final dividend of HK$0.053 per share (2011: HK$0.068 per share)	42,500	55,200

On 26 February 2013, the Board proposed a final dividend in respect of the year ended 31 December 2012 of HK$53,000,000, representing HK$0.053 per share. Such dividend is to be approved by the shareholders of the Company at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

16. EARNINGS PER SHARE – BASIC

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

	2012 RMB'000	2011 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	250,240	275,967

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,000,000,000	1,000,000,000

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

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2011	351,843	436,096	7,617	5,743	306,510	1,107,809
Additions	785	12,961	770	918	387,802	403,236
Transfer	235,582	160,032	—	—	(395,614)	—
Disposals/write off	(9,733)	(20)	(129)	(194)	—	(10,076)
At 31 December 2011 and 1 January 2012	**578,477**	**609,069**	**8,258**	**6,467**	**298,698**	**1,500,969**
Additions	**10,933**	**98**	**656**	**1,280**	**500,140**	**513,107**
Transfer	**87,010**	**97,795**	**2,210**	—	**(187,015)**	—
Disposals/write off	**(50)**	—	**(73)**	**(6)**	—	**(129)**
At 31 December 2012	**676,370**	**706,962**	**11,051**	**7,741**	**611,823**	**2,013,947**
DEPRECIATION						
At 1 January 2011	(33,031)	(64,781)	(3,027)	(1,030)	—	(101,869)
Provided for the year	(13,817)	(28,014)	(1,574)	(661)	—	(44,066)
Disposals/write off	699	13	112	114	—	938
At 31 December 2011 and 1 January 2012	**(46,149)**	**(92,782)**	**(4,489)**	**(1,577)**	—	**(144,997)**
Provided for the year	**(19,078)**	**(35,334)**	**(1,680)**	**(807)**	—	**(56,899)**
Disposals/write off	**6**	—	**56**	**5**	—	**67**
At 31 December 2012	**(65,221)**	**(128,116)**	**(6,113)**	**(2,379)**	—	**(201,829)**
CARRYING VALUES						
At 31 December 2012	**611,149**	**578,846**	**4,938**	**5,362**	**611,823**	**1,812,118**
At 31 December 2011	532,328	516,287	3,769	4,890	298,698	1,355,972

17. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

	2012 RMB'000	2011 RMB'000
Buildings	208,103	244,588
Plant and machinery	—	215,556
	208,103	460,144

18. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	380,303	281,069
Analysed for reporting purpose as:		
– Current assets	7,916	5,800
– Non-current assets	372,387	275,269
	380,303	281,069

The Group's prepaid lease payments amounts represent the payments for land use rights situated in the PRC. The remaining unexpired lease term of the leasehold lands is in range of 37 to 48 years (2011: 38 to 49 years) for the year ended 31 December 2012.

19. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	110,952	204,693
Work in progress	142	228
Finished goods	32,194	32,763
	143,288	237,684

20. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	309,901	281,212
Prepayments to suppliers	—	6,985
Other prepayments	1,920	1,265
Other tax recoverable	18,371	18,227
Others	20	91
	330,212	307,780

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

	2012 RMB'000	2011 RMB'000
0 to 30 days	144,901	135,612
31 to 60 days	148,492	119,431
61 to 90 days	16,508	26,169
	309,901	281,212

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

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

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB16,508,000, ageing 0 to 30 days, (2011: RMB26,169,000, ageing 0 to 30 days) based on the past due date, which are past due as at year end date for which the Group has not provided for impairment loss. No impairment is considered necessary for this balance because it has been fully settled after the end of the reporting period. The Group does not hold any collateral over these balances.

It is the Group's policy to provide fully for any receivables aged over two years because they are considered not recoverable. As at 31 December 2012 and 2011, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term deposits, mainly denominated in RMB, with an original maturity of three months or less. Pledged bank deposits represent deposits pledged to banks to secure short term banking facilities granted to the Group.

Bank balances of the Group carry market interest rates of range from 0.001% to 3.2% (2011: 0.001% to 0.50%) per annum as at 31 December 2012.

Pledged bank deposits of the Group carry fixed interest rates of 3.5% (2011: 0.36% to 0.50%) per annum as at 31 December 2012.

22. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	155,880	139,630
Notes payables	—	19,103
	155,880	158,733
Other payables for acquisition of plant and equipment	13,890	18,057
Other tax payables	12,887	7,737
Accrued staff costs	6,851	5,152
Accrued employee social security fund	5,086	7,134
Accrued electricity expenses	6,914	7,732
Other accrued expenses	5,983	6,030
	207,491	210,575

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

	2012 RMB'000	2011 RMB'000
Within 30 days	84,601	87,010
31 to 90 days	71,279	52,620
	155,880	139,630

22. TRADE AND OTHER PAYABLES (continued)

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

	2012 RMB'000	2011 RMB'000
Within 30 days	—	6,842
31 to 90 days	—	—
91 to 120 days	—	12,261
	—	19,103

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

23. BANK BORROWINGS

	2012 RMB'000	2011 RMB'000
Secured bank borrowings	**443,625**	502,120
Unsecured bank borrowings	**484,110**	30,000
	927,735	532,120
Carrying amount repayable:		
Within one year	**404,735**	452,120
More than one year, but not exceeding two years	**128,100**	45,000
More than two years, but not exceeding five years	**394,900**	35,000
	927,735	532,120
Less: Amounts due within one year shown under current liabilities	**(404,735)**	(452,120)
Amounts shown under non-current liabilities	**523,000**	80,000
Analysed as:		
Fixed-rate borrowings	**171,000**	193,000
Variable-rate borrowings	**756,735**	339,120
	927,735	532,120

23. BANK BORROWINGS (continued)

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

	2012	2011
Effective interest rate:		
Fixed-rate borrowings		
RMB	6.89% to 7.54%	6.06% to 7.87%
Variable-rate borrowings		
HK$	HIBOR plus 3%	—
US$	LIBOR plus 1.7%	—
RMB	Benchmark Borrowing Rate to 135% of Benchmark Borrowing Rate	90% of Benchmark Borrowing Rate to Benchmark Borrowing Rate

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

	2012 RMB'000	2011 RMB'000
Amounts shown under current liabilities:		
Fixed-rate borrowings		
RMB	171,000	193,000
Variable-rate borrowings		
HK$	40,225	—
US$	93,510	—
RMB	100,000	259,120
	404,735	452,120
Amounts shown under non-current liabilities		
Variable-rate borrowings		
RMB	523,000	80,000
	927,735	532,120

23. BANK BORROWINGS (continued)

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

	2012 RMB'000	2011 RMB'000
Borrowings are secured by assets of the Group (Note)	443,625	482,120
Borrowings are cross-guaranteed among subsidiaries of the Company	484,110	50,000
	927,735	532,120

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

	2012 RMB'000	2011 RMB'000
Bank deposits	45,170	—
Property, plant and equipment	208,103	460,144
Land use rights, classified as prepaid lease payments	274,702	262,927
	527,975	723,071

24. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.1 each		
Authorised:		
As at 1 January 2011, 31 December 2011 and 31 December 2012	10,000,000,000	1,000,000,000
Issued and fully paid:		
As at 1 January 2011, 31 December 2011 and 31 December 2012	1,000,000,000	100,000,000

	2012 RMB'000	2011 RMB'000
Presented in RMB		
Share capital	87,680	87,680

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

25. RESERVES

The Group

	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note c)	Total RMB'000
At 1 January 2011	257,299	67,866	68,037	393,202
Appropriation	—	—	28,031	28,031
At 31 December 2011 and 1 January 2012	**257,299**	**67,866**	**96,068**	**421,233**
Appropriation	—	—	**25,470**	**25,470**
At 31 December 2012	**257,299**	**67,866**	**121,538**	**446,703**

The Company

	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	451,469	5,690	(18,466)	438,693
Loss and total comprehensive expense for the year	—	—	(2,604)	(2,604)
Transfer to accumulated losses	(55,200)	—	55,200	—
At 31 December 2011 and 1 January 2012	**396,269**	**5,690**	**34,130**	**436,089**
Loss and total comprehensive expense for the year	—	—	**(4,244)**	**(4,244)**
Dividends recognised as distribution	—	—	**(83,900)**	**(83,900)**
Transfer to accumulated losses	**(71,200)**	—	**71,200**	—
At 31 December 2012	**325,069**	**5,690**	**17,186**	**347,945**

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

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

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

26. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

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

Both the Group and the employee contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,000 (approximately RMB800) from 1 January 2012 to 31 May 2012 and HK$1,250 (approximately RMB1,000), which is effective from 1 June 2012, (2011: HK$1,000 (approximately RMB819)) to the MPF Scheme.

(b) Social security and benefits for PRC employees

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

The total cost charged to profit or loss of RMB2,210,000 (2011: RMB2,030,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2012.

27. RELATED PARTY DISCLOSURE

Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Short-term benefits	4,633	5,089
Post-employment benefits	116	123
	4,749	5,212

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

28. MAJOR NON-CASH TRANSACTION

During the year, the Group's acquisition of property, plant and equipment was settled through deposits paid in the prior years amounting to approximately RMB140,648,000 (2011: RMB69,214,000).

During the year, the Group's acquisition of land use right was settled through deposits paid in the prior years amounting to approximately RMB60,683,000 (2011: RMB22,155,000).

29. OPERATING LEASE

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise and staff quarter during the year ended 31 December 2012 were RMB324,000 (2011: RMB673,000).

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

	2012 RMB'000	2011 RMB'000
Within one year	204	154
In the second to fifth year inclusive	17	—
	221	154

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

30. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	158,962	357,917

31. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2012 and 2011 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
				2012	2011	
Xi Yuan BVI	British Virgin Islands	Hong Kong	1 ordinary share of US$1	100% (directly)	100% (directly)	Investment holding
Sunwell	Hong Kong	Hong Kong	10,000,000 ordinary shares of HK$1 each	100% (indirectly)	100% (indirectly)	Investment holding
Huaxiang*	PRC	PRC	RMB442,334,612	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper and other products
Xiyuan*	PRC	PRC	HK$300,000,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper, wall paper backing paper and copy paper
Youlanfa*	PRC	PRC	RMB128,880,000	100% (indirectly)	100% (indirectly)	Manufacturing and trading of double-sided MF tissue paper, single-sided MF tissue paper, copy paper and other products

* These subsidiaries are wholly foreign owned enterprises.

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

32. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	91,420	58,309
Amount due from a subsidiary	371,900	437,688
	463,320	495,997
CURRENT ASSETS		
Prepayment	83	169
Bank balances and cash	15,029	29,305
	15,112	29,474
CURRENT LIABILITIES		
Other payables and accrued expenses	2,582	1,702
Bank borrowings	40,225	—
	42,807	1,702
NET CURRENT (LIABILITIES) ASSETS	(27,695)	27,772
NET ASSETS	435,625	523,769
CAPITAL AND RESERVES		
Share capital (Note 24)	87,680	87,680
Reserves (Note 25)	347,945	436,089
TOTAL EQUITY	435,625	523,769

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	562,019	724,793	1,224,297	1,428,235	**1,434,379**
Profit before tax	145,684	183,770	294,832	319,257	**294,115**
Income tax expense	(13,041)	(13,093)	(38,283)	(43,290)	**(43,875)**
Profit and total comprehensive income for the year	132,643	170,677	256,549	275,967	**250,240**
Profit and total comprehensive income attributable to owners of the Company	126,396	165,941	256,549	275,967	**250,240**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	918,977	1,305,329	2,272,281	2,523,920	**3,084,992**
Total liabilities	(624,820)	(750,482)	(776,061)	(751,733)	**(1,146,465)**
	294,157	554,847	1,496,220	1,772,187	**1,938,527**
Equity attributable to owners of the Company	274,806	554,847	1,496,220	1,772,187	**1,938,527**
Minority interests	19,351	—	—	—	**—**
	294,157	554,847	1,496,220	1,772,187	**1,938,527**

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