ZHENGYE
INTERNATIONAL

2013 年報
ANNUAL REPORT

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
STOCK CODE:3363

ZHENGYE
INTERNATIONAL

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2013 ANNUAL REPORT

Board of Directors
Executive Directors
Mr. Hu Zheng *(Chairman)*
Mr. Hu Hancheng
(Vice-Chairman and Chief Executive Officer)
Mr. Hu Hanchao
(Vice-Chairman and Chief Operating Officer)
Mr. Chen Weixin
Mr. Yin Wenxin

Non-Executive Director
Mr. Hu Hanxiang

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

Company Secretary
Ms. Chan Yin Wah

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

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

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

Registered Office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Headquarters and Principal Place of Business in China
No. 173, South Xinming Road
Huangpu, Zhongshan , Guangdong
The People's Republic of China

Principal Place of Business in Hong Kong
Suite 1712, 17th Floor
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

Authorized Representatives
Mr. Hu Zheng
Ms. Chan Yin Wah

Legal Adviser
As to Bermuda law
Conyers Dill & Pearman

Auditor
Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Share Registrar and Transfer Office in Bermuda
MUFG Fund Services (Bermuda) Limited
(formerly known as Butterfield Fulcrum Group (Bermuda) Limited)
26 Burnaby Street
Hamilton HM 11
Bermuda

Branch Share Registrar and Transfer Office in Hong Kong
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

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

Share Information
Stock code: 3363

Company's Official Website Address
http://www.zhengye-cn.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual results report of Zhengye International Holdings Company Limited (the "Company "or "Zhengye International", together with its subsidiaries, our "Group" or the "Group") for the year ended 31 December 2013 (the "Year").

The year 2013 saw Zhengye International's achievements in its layout perfection and capacity reinforcement. During the year, the Group had continued the strategic layout of its production network to place a solid foundation for its future business development. In the meantime, the Group has also gradually released the new production capacity in Hefei, Wuhan, Shijiazhuang and Zhengzhou to provide customers' production bases with high-quality and one-stop packaging services. The major customer base of the Group is small household appliance and air conditioner manufacturers. Notwithstanding the fact that the Energy saving Appliances Subsidy policy had been officially implemented in May 2013, boosted by the waves of urbanisation and the recovery of the property market, there still is huge rigid demand for household appliance products with a steady growth of sales during the year. According to the statistics of the household appliance market published by China Market Monitor Company Limited (CMM), an institute engaged in market research, in 2013, the size of the PRC household appliance market reached RMB1.38 trillion, representing a year-on-year increase of 18.8%. The increasing sales of household appliances have driven the demand for paper-based packaging products and relevant services. Zhengye International is one of the strongest integrated packaging service providers in the PRC, whose business ranges from the upstream waster paper recycling, high-strength corrugated medium paper production, corrugated cartons and honeycomb paper-based product's paper-based packaging products production to the downstream seamlessly linked packaging services. Building on the advantages in cost brought by its vertical integrated industry chain as well as its sound sales network and production capacity layout, the Group has captured opportunities from the growth of the household appliance market, thereby recording a satisfactory growth in results and further augmenting its market presence.

Results of the Year

During the year ended 31 December 2013, since the demand of the household appliance industry for paper-based packaging products had been rising and the Group had released its new production capacities located in Hefei, Wuhan, Shijiazhuang and Zhengzhou, the overall turnover of the Group reached approximately RMB1,445,749,000 (2012: approximately RMB1,242,371,000), representing a year-on-year increase of 16.37%. During the year, as the selling price of corrugated medium paper was lowered while falls in the cost of major waste paper had been limited, the overall gross profit margin slightly declined to 18.81% from 20.85% in 2012. Profit attributable to owners of the Company amounted to approximately RMB34,828,000, representing a year-on-year decrease of 32.26%. Basic and diluted earnings per share were approximately RMB7 cents.

CHAIRMAN'S STATEMENT

Paper-based packaging products

The major customers of paper-based packaging products are the domestic air conditioners and small household appliances manufacturers. In 2013, sales of the PRC household appliance products grew steadily, driving the demands for paper-based packaging products. The Group has already rolled out its sales network and production capacity in South China, Central China and other main household appliance production bases. Besides, the Group has also been in active participation in the research and development of an e-enabling information platform. These steps have enabled the Group to shorten the order processing time and to provide customers with more flexible and faster product delivery, thus making us be capable of seizing opportunities from this market growth. During the year, turnover of the Group's paper-based packaging product business increased to RMB863,435,000, representing a sharp rise of 19.55% over last year. Wherein, the best performer was the honeycomb paper-based products, the turnover of which significantly increased by 84.82% to RMB189,753,000, representing 21.98% of this business segment. With the people attaching more and more emphasis on the environmental protection and given its property of recyclability and natural degradation, the honeycomb paper-based products are gradually superseding foam, plastic materials and other traditional packaging materials that have adverse impact on our environment, thereby enjoy an expanding market scale. It is believed that this kind of products will continue to contribute considerable revenue to the Group.

Corrugated medium paper

Zhengye International engages in the research, development and production of high-quality corrugated medium paper. Apart from another source of income, this business has also assured the quality of our paper-based packaging products and the supply of raw materials. During the year, lower prices of waste paper as raw material resulted in pressure on the average selling price of corrugated medium paper. However, sales volume of this products increased sharply by 29.16% to 247,647 tons, and the sales reached RMB582,314,000, representing a year-on-year increase of 11.96%. In 2013, the Ministry of Industry and Information Technology announced the policy of eliminating 274 paper manufacturers. This has accelerated the integration of the corrugated medium paper market. Therefore, the overall market prices will be resumed gradually back to the reasonable levels in line with reduced production capacity. By building its own network for recycling waste paper, the Group has formed its cost advantage for the production of corrugated medium paper. It is believed that our vertical integrated industry chain will be helpful for the Group to take more market share.

Outlook & Prospects

Each broad policy to stimulate consumption exited successively in 2013. However, propelled by the ever-rising per-capita income and the progress of urbanization, there still is huge rigid demand for household appliance products. On the other hand, the household appliance industry is gradually stepping into a stage oriented by improved consumption. Different from the pure pursuit of functionality of products in the past, citizens in affluent cities currently would like to purchase those household appliances that integrate the elements such as function, fashion and environmental protection to differentiate themselves from many others by lifestyle. With the urban population rising, the turnover of household appliances has brought huge demands for packaging products, particularly corrugated medium paper and other paper-based packaging products that exclusively used as the package of household appliances.

CHAIRMAN'S STATEMENT

Experiencing years of expansion and integration in the past, the Group's production capacity has gradually finalized its nationwide layout. With production capacity released and operational efficiency enhanced, it is believed the Group will soon enter a stage of generating returns. Currently, we have a total of eight production plants spreading across main household appliance production bases in Zhongshan, Zhuhai, Zhengzhou, Hefei, Wuhan, Shijiazhuang, which can support customers in all directions. Furthermore, in 2014, the Group successfully acquired 58.7% of equity interest in each of Zhongshan Rengo Hung Hing Paper Manufacturing Company ("Lian He") and Zhongshan Ren Hing Paper Manufacturing Company Limited ("Lian Xing") (collectively referred to as the "Lian He and Lian Xing"), thus enhancing the production capacity of corrugated medium paper, strengthening the vertical integrated one-stop industry chain, and cementing the base of supplying raw materials for the future expansion of paper-based packaging product business. Upon such acquisition, the Group has become one of the leading corrugated medium paper manufacturers in South China. By combining our capacity in producing paper-based packaging, the Group will be able to capture opportunities from the transformation and upgrading of the household appliance industry, to further expand its market share and to consolidate our leading position.

Amid the current fierce business environment, the only enhancement of production capacity cannot yet satisfy customers' needs. As a result, the Group has adjusted its positioning by providing seamlessly linked packaging services as well as the one-stop services ranging from participating in the package design, package printing, procurement of raw materials to product delivery. Moreover, through e-enabling information platform jointly developed with customers, we can understand the production status in real time, flexibly cooperate to provide packaging products and greatly shorten the lead time. This high value-added service cannot only sharpen our competitive edge, but also raise customers' loyalty, which will be beneficial for us to take more market share.

Looking ahead, the Group will continue to improve the operational efficiency and cut down the administrative expenses to comprehensively raise our profitability through implementing a series of internal integration measures. Meanwhile, we will be committed to optimising our debt structure and lowering our financing costs to accommodate the long-term development of our business under a prudent asset management policy. It is believed that leveraging on our vertical integrated industry chain, nationwide layout of production capacity and value-added services and with the support of significant assets, we will seize the opportunities from the development of the household appliance industry to achieve a rapid growth of our business.

Here, on behalf of the Board, I would like to express my heartfelt gratitude to all of our customers, partners, suppliers and shareholders for their support to the Group and extend my appreciation to all our management and staff for their dedication and contributions throughout the past year. Zhengye International will continue to endeavor to create sustainable and promising returns for shareholders by adhering to its spirit of taking firm steps to success.

Hu Zheng
Chairman

Hong Kong, 21 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Turnover

In 2013, the domestic paper manufacturing industry was facing similar excessive production capacity. Although the government has accelerated the elimination of the small-scale and low-efficient paper manufacturing factories, the competition within the industry remains keen, resulted in a pressure on the selling price of paper products. However, there has been an ongoing demand from the Group's main customer base for small appliances and air conditioners, and sales volume raised as some major customers successfully increased their market share, both of which have in turn spurred the growth of the Group's two major core businesses, namely paper-based packaging products and corrugated medium paper. Besides, leveraged on the four new production lines located in Zhengzhou, Hefei, Wuhan and Shijiazhuang, which have been successively put into operation with production capacity being released, the Group is capable of meeting the growing customer demands, thus achieving a satisfactory turnover growth.

The revenue for the year ended 31 December 2013 (the "Year") was RMB1,445,749,000, representing a growth of 16.37% compared with RMB1,242,371,000 for the year ended 31 December 2012 (the "Year 2012"). Revenue from paper-based packaging products and corrugated medium paper represented 59.72% and 40.28%, respectively (2012: 58.13% and 41.87%, respectively) of the total revenue of the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of the Group's principal activities

	2013			2012		
	Turnover RMB'000	**Percentage of total revenue %**	**Gross profit margin %**	Turnover RMB'000	Percentage of total revenue %	Gross profit margin %
Paper-based packaging products						
Corrugated cartons	**673,682**	**46.60**		619,572	49.87	
Honeycomb paper-based products	**189,753**	**13.12**		102,669	8.26	
Subtotal	**863,435**	**59.72**	**19.66**	722,241	58.13	19.62
Corrugated medium paper						
AA grade	**480,345**	**33.23**		357,184	28.75	
C grade	**52,066**	**3.60**		162,946	13.12	
Wasted paper raw material	**49,903**	**3.45**		–	–	
Subtotal	**582,314**	**40.28**	**17.55**	520,130	41.87	22.56
TOTAL	**1,445,749**	**100.00**	**18.81**	1,242,371	100.00	20.85

Paper-based packaging products

The Group provides paper-based packaging products mainly to the domestic household air conditioners and small home appliances, which include corrugated cartons and honeycomb paper-based products. As the newly added production capacity of the factories located in Shijiazhuang, Zhengzhou, Hefei and Wuhan timely met the increasing orders from major customers, the revenue of paper-based packaging products increased by 19.55% to RMB863,435,000 in 2013 (2012: RMB722,241,000). The revenue of corrugated cartons and honeycomb paper-based products represented 78.02% and 21.98%, respectively (2012: 85.78% and 14.22%) of the turnover of paper-based packaging products. Wherein, The revenue of the corrugated cartons business was RMB673,682,000 (2012: RMB619,572,000), representing an stable increase of 8.73%; the revenue of honeycomb paper-based products was RMB189,753,000 (2012: RMB102,669,000), representing an increase of 84.82%.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover by customer at paper-based packaging products

	2013		2012	
		Percentage of total revenue		Percentage of total revenue
	RMB'000	**(%)**	RMB'000	(%)
Household air conditioners and small Home appliances manufacturers	**728,397**	**84.36**	581,828	80.56
Food and seasoning manufacturer	**99,680**	**11.54**	138,551	19.18
Other	**35,358**	**4.10**	1,862	0.26
TOTAL	**863,435**	**100.00**	722,241	100.00

For the year ended 31 December 2013, the Group derived turnover mainly from household air conditioners and small home appliances. The relevant of turnover amounted to RMB728,397 (2012: RMB581,828,000), representing an increase of 4.72% at the percentage of total revenue over last year, or 84.36% of the total revenue of paper-based packaging products during the year. Following the completion of the acquisition of a paper manufacturing factory in April 2014, the Group will use the expanded customer network to further development market-oriented products to diversify its revenue. In addition, the Group will continue to accelerate the research and development of paper-based packaging and design to expand high value-added products, provide customers with seamless production scheme and shorten production cycle so as to solidify the business relations with customers and to further increase the profitability of the Group.

Corrugated medium paper

During the year, the average selling price of corrugated medium paper declined by 13.42% to RMB2,349 (2012: RMB2,713) due to the impact of the drop in the price of waste paper, being raw material. However, as the production efficiency raised as a result of the commencement of operation of new production lines and technical transformation, the sales volume of corrugated medium paper increased by 29.16% to 247,647 tons (2012: 191,740 tons), which has offset the adverse impact of declined selling price, therefore the revenue of corrugated medium paper slightly increased by 11.96% to RMB582,314,000 (2012: RMB520,130,000).

Capacity and capacity utilization rate

The Group has a complete upstream-to-downstream industrial chain that covers waste paper recycling, corrugated medium paper production and paper-based packaging product processing and other processes. In 2013, the Group's total designed annual capacity of corrugated cartons, honeycomb paper-based products and corrugated medium paper was 875,205,000 sq.m., 25,581,000 sq.m. and 370,000 tons, respectively, representing an increase of 55.36%, 20.16% and 23.33%, respectively, over that of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Paper-based packaging products

In 2013, the Group had a total of 15 production lines (including 10 corrugated cartons and 5 honeycomb paper-based products production lines), mainly located in Zhongshan, Zhuhai, Shijiazhuang, Zhnegzhou, Wuhan and Hefei. Among these, the utilization rate of the newly added production line located in Hefei was relatively low due to its being at the early stage of production. The Group is confident that it can further release the production capacity of each of production lines through optimizing management and allocating orders to maximize the resources of the Group.

	2013			2012		
	Design capacity '000 sq.m.	**Actual Capacity '000 sq.m.**	**Capacity utilization rate (%)**	Design capacity '000 sq.m.	Actual Capacity '000 sq.m.	Capacity utilization rate (%)
Zhongshan						
No.1 corrugated cartons production line	**38,880**	**27,748**	**71.37**	38,880	31,529	81.09
No.2 corrugated cartons production line△	**N/A**	**N/A**	**N/A**	5,940	2,099	35.34
No.3 corrugated cartons production line	**38,880**	**10,860**	**27.93**	38,880	35,286	90.76
No.4 corrugated cartons production line	**38,880**	**27,766**	**71.41**	38,880	36,376	93.56
No.7 honeycomb paper-based product production line	**4,312**	**3,961**	**91.86**	4,320	3,735	86.46
No.8 honeycomb paper-based product production line	**3,525**	**1,869**	**53.02**	3,510	1,694	48.26
New No.2 corrugated cartons production line※	**184,140**	**38,547**	**20.93**	15,340	1,824	11.89
Zhuhai						
No.5 corrugated cartons production line	**72,900**	**40,398**	**55.42**	72,900	44,003	60.36
No.6 corrugated cartons production line	**45,360**	**12,160**	**26.81**	45,360	14,668	32.34
Shijiazhuang						
No.9 corrugated cartons production line※	**90,396**	**19,419**	**21.48**	67,790	11,006	16.24
No.10 honeycomb paper-based product production line※	**6,696**	**2,609**	**38.96**	3,340	1,059	31.71
Zhengzhou						
No.11 corrugated cartons production line※	**150,660**	**17,373**	**11.53**	138,100	10,277	7.44
No.12 honeycomb paper-based product production line※	**4,352**	**4,146**	**95.28**	3,990	911	22.83
Wuhan						
No.13 corrugated cartons production line※	**110,484**	**10,735**	**9.72**	101,270	5,676	5.60
No.14 honeycomb paper-based product production line※	**6,696**	**2,939**	**43.90**	6,130	1,199	19.56
Hefei						
No.15 corrugated cartons production line#	**104,625**	**6,491**	**6.20**	N/A	N/A	N/A
TOTAL corrugated cartons	**875,205**	**211,497**	**24.17**	563,340	192,744	34.21
honeycomb paper-based product	**25,581**	**15,524**	**60.69**	21,290	8,598	40.39

※ No. 9, 10, 11, 12, 13, 14 and New No. 2 production lines were put into production in 2012.

△ No. 2 production line retired in 2012.

\# No. 15 production line was put into production in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

Corrugated medium paper

	2013			2012		
	Planned operation (hours)	**Actual operation (hours)**	**Effective rate (%)**	Planned operation (hours)	Actual operation (hours)	Effective rate (%)
Zhongshan						
No. 1 paper machine	6,797	6,446	94.84	7,618	7,493	98.34
No. 2 paper machine	6,898	6,700	97.13	7,794	7,785	99.88
No. 3 paper machine	6,867	6,316	91.98	7,794	7,480	95.97
No. 5 paper machine※	7,204	6,622	91.92	552	414	75.00

※ No. 5 paper machine was put into production in 2012.

The main production base of corrugated medium paper is located in Zhongshan. In 2013, we had 4 corrugated medium paper production line with a total designed annual production capacity of 370,000 tons. After the completion of the acquisition of a paper manufacturing factory (with 1 corrugated paper production line and 2 corrugated medium paper production lines) also located in Zhongshan in April 2014, the Group will increase its new designed annual production capacity by 400,000 tons, making the Group be one of the leading corrugated paper producers in Guangdong region.

Acquisition of 58.7% of equity interest in each of Lian He and Lian Xing

On 31 July 2013, the Group announced the acquisition of 58.7% of equity interest in each of Zhongshan Rengo Hung Hing Paper Manufacturing Company* (中山聯合鴻興造紙有限公司) ("Lian He") and Zhongshan Ren Hing Paper Manufacturing Company Limited* (中山聯興造紙有限公司) ("Lian Xing") (collectively referred to as the "Lian He and Lian Xing") at a total consideration of RMB141,914,000. Upon the completion of such acquisition in April 2014, the Group has become one of the leading corrugated medium paper manufacturers in Guangdong region. The Target Group's paper mill, located in Zhongshan City, Guangdong Province, operates a production line for cardboard paper and two production lines for corrugated premium paper, with a designed production capacity of 400,000 tons. As of 31 December 2012, the unaudited combined net asset was approximately RMB323,800,000. The major clients are the packaging and printing companies in China. Owing to the close proximity of the Target Group's paper mill to the paper manufacturing base of the Group located in Zhongshan, the Group will be able to consolidate and integrate these two facilities in a short time. The Company is confident that the acquisition will generate synergistic effects through the Group's directed technical modification, reposition of the Target Group's product mix, as well as increased production capacity, especially the Group's advantages in the knowledge of the raw material and familiarity in sales markets in Zhongshan. All of these aims to seek a maximal investment return for the shareholders.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Prospect

In 2014, the central government will, by adhering to the principle of seeking progress prudently as the keystone of this year's macroeconomic growth, continue to stabilize the economic growth and the national living standards and to advance urbanization and domestic demand. These steps will favor boosting the rigid demand of the household appliance industry. Furthermore, as the Ministry of Industry and Information Technology will continue to implement the policy of eliminating backward production capacities, the problem of excessive production capacity plaguing the paper manufacturing industry will be solved gradually, and this industry will develop in a more healthy way, bring broader development room for the Group.

In 2014, the Group has completed its strategic layout with a certain scale, covering the production bases of main household appliance producers in South China, Central China and North China. The new production lines located in Shijiangzhuang, Zhengzhou, Wuhan and Hefei will continue to advance their natural growth and operational effectiveness by enhancing the utilization rate and releasing production capacity by effective order allocation within the Group.

With the completion of the acquisition of Lian He and Lian Xing's paper manufacturing factories, the important missions of the Group for this year is to conduct internal integration and deployment of production capacity. The Group plans to use its own advantages in the production technology of low-weight and high-strength corrugated medium paper to arrange Lian He and Lian Xing's paper manufacturing factories to focus on producing such low-weight and high-strength corrugated medium paper. Since we can thoroughly use every single idle production line of Lian He and Lian Xing's paper manufacturing factories to meet orders from customers on the one hand while modifying their corrugated paper production lines to increase the annual production of their high-strength corrugated medium paper from the exiting 170,000 tons to 270,000 tons, thus raising the overall annul production of corrugated medium paper of the Group to 270,000 tons. In addition, the Group will also carry out the technical modification for Lian He and Lian Xing's paper manufacturing factories, for example, to improve the pulping technology and other key production processes, to reduce its production cost and to improve production efficiency. The Group will also focus on strengthening internal management at the same time, adopt the strategy of centralized procurement and resource sharing, and expand the post-acquisition benefits and synergic effects, with an aim to maximize the economic benefit of all production lines and to cement the solidest base for the future development of the Group.

As in the past, in addition to continuingly intensifying the research and development of the special low-weight and high-strength corrugated medium paper and other new paper products, the Group will proactively invest in research and development. In the future, the Group will also further enrich the product portfolio according to the market trend and customers' needs. Meanwhile, the Group will identify more other consumption types of customer base to facilitate the diversification of business development.

MANAGEMENT DISCUSSION AND ANALYSIS

In the coming year, the Group will continue to substantially reduce administrative expenses and financing cost to maintain an ideal capital structure. In addition, the Group will continue integrate and effectively utilize the resources of the Group, lower production costs and enhance the operational and producing efficiency to raise the profitability. Meanwhile, the Group will also keep providing high-quality products and a number of value-added services and further improve supporting facilities to satisfy and surpass the demands of customers and markets, so as to allow the Group to keep expanding its market share and to maintain its capacity in the corrugated medium paper and paper-based packaging product markets.

Cost of sales

The Group's cost of sales increased from 983,276,000 in 2012 to RMB1,173,815,000, representing a growth of 19.38%, which is slightly higher than the growth of turnover in 2013. This is mainly attributable to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

Paper-based packaging products

The cost of sales of paper-based packaging products were RMB693,707,000 (2012: RMB580,510,000), representing an increase of 19.50%.

Corrugated medium paper

The cost of sales of corrugated medium paper were RMB480,108,000 (2012: RMB402,766,000), representing a growth of 19.20%, it is mainly attributable to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

Gross profit and gross profit margin

Due to the above, the gross profit recorded for the 2013 is RMB271,934,000, representing an increase of 4.96% as compared with RMB259,095,000 in 2012. The gross profit margin declined from 20.85% in 2012 to 18.81% during the Year. The decrease in gross profit margin is mainly attributable to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

The gross profit from paper-based packaging products for 2013 was RMB169,728,000 (2012: RMB141,731,000), representing a growth of 19.75%. The overall gross profit margin for 2013 was 19.66% (2012: 19.62%), up by 0.04 percentage points.

The gross profit from corrugated medium paper for 2013 was RMB102,206,000 (2012: RMB117,364,000), representing a decrease of 12.92%. The overall gross profit margin for 2013 was 17.55% (2012: 22.56%), down by 5.01 percentage points. It is due to the lowered the selling price of corrugated medium paper during the Year because of the limited cost reduction in wasted papers.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income, other gains and losses

Other income, other gains and losses mainly included income from interest RMB4,601,000 (2012: RMB4,274,000) and government subsidies RMB15,858,000 (2012: RMB6,400,000).

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 18.97% from RMB50,606,000 for the Year 2012 to RMB60,207,000 for the Year, representing approximately 4.07% and 4.16% of the Group's revenue, respectively. The increase was mainly attributable to the increase of RMB15,537,000 in transportation costs due to the growth of the revenue of the Group during the Year.

Administrative and other expenses

The Group's administrative and other expenses increased by approximately 20.76% from RMB84,278,000 for the Year 2012 to RMB101,776,000 for the Year, representing approximately 6.78% and 7.04% of the Group's revenue, respectively. The increase was primarily due to the planned business expansion, its staff costs (welfare and social insurance), office leasing, depreciation, office related expenses and travelling expenses, etc, it increased RMB8,743,000 in total as compared to the Year 2012. During the Year, the Group had paid around RMB5,000,000 to the relevant expenses (including legal and professional fees) in relation to the acquisition of Lian He and Lian Xing's paper manufacturing factories.

Finance costs

Finance costs of the Group increased by approximately 27.43% from RMB38,466,000 for the Year 2012 to RMB49,018,000 for the Year primarily due to the need to obtain funds for the Group's business expansion in paper-based packaging division and corrugated medium paper division, causing an increase in short-term borrowings throughout the Year. In addition, the interests expenses and bills discounted costs increased due to the constrained of funding in PRC during the Year.

Interest rates of bank borrowings were at variable rates ranging from 1.95% to 7.50% for the Year, compared with 1.0425% to 6.9825% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate and obligations under finance leases during the Year are 4.55%, 4.47% and 9.49% respectively (2012: 5.71%, 5.41% and 9.18% respectively).

The borrowings and obligations under finance leases amounted to RMB907,625,000 as at 31 December 2013, compared with RMB799,583,000 as at 31 December 2012.

Research and development expenses

Research and development expenses of the Group increased by 6.09% from RMB35,283,000 in the Year 2012 to RMB37,433,000 during the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and develop new products in response to the demand from customers to conduct research on new technology and new process to enhance production efficiency and product quality.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense

During the Year, the Group's income tax expense was RMB12,437,000 (2012: RMB10,750,000), accounting for 26.31% of the total profit (2012: 17.29%). The Group paid RMB4,297,000 as the supplementary enterprise income tax for the year 2008, 2009 and 2010.

Profit and total comprehensive incomes

Due to the above factors, the net profit in 2013 was RMB34,828,000, with a decrease of 32.26% compared with RMB51,417,000 in 2012. This was mainly due to the planned business expansion, its total amounts of cost of sales, staff costs (welfare and social insurance), office leasing, depreciation, office related expenses and travelling expenses, etc, it recorded a rapid increased as compared to the Year 2012. During the Year, the Group had paid certain expenditures to the relevant expenses (including legal and professional fees) in relation to the acquisition of Lian He and Lian Xing's paper manufacturing factories.

Dividends

The Board recommends, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on Friday, 30 May 2014, the payment of a final dividend of RMB2.09 cents per Share for the year ended 31 December 2013 (2012: a final dividend of RMB3.08 cents per Share) to those shareholders whose names appear on the register of members of the Company on Thursday, 5 June 2014. The recommended final dividend, if approved at the AGM, will be paid in Hong Kong dollars. The RMB/Hong Kong dollar exchange rate for the final dividend will be calculated using the opening indicative counter buying telegraphic transfer rate for RMB of The Hong Kong Association of Banks, which will be published on the websites of the Stock Exchange and the Company together with the poll results of the AGM on Friday, 30 May 2014. The final dividend is expected to be paid on or around Tuesday, 24 June 2014.

Closure of register of members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 27 May 2014 to Friday, 30 May 2014 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 May 2014.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Friday, 6 June 2014 to Monday, 9 June 2014 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to for the recommended final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 5 June 2014. The final dividend will be paid to shareholders on or around Tuesday, 24 June 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL STRUCTURE

Cash flow

As at 31 December 2013, the Group had a net cash inflow of RMB5,302,000. The amounts arising from operating activities and financing activities were RMB51,576,000 and RMB3,047,000 respectively, while the cash outflow of investment activities recorded during the Year was RMB49,321,000.

The net amount of the cash outflow arising from investment activities for the payment of purchasing properties, plant and equipment, the deposit paid for acquisition of subsidiaries, purchasing the short-term investments product and the deposits paid for acquisition of property, plant and equipment were RMB72,806,000, RMB14,191,000, RMB10,000,000 and RMB7,528,000 respectively.

Inventories

The inventories increased 9.31% to approximately RMB127,333,000 as at 31 December 2013, compared to approximately RMB116,487,000 as at 31 December 2012. During the Year, the inventory turnover day was improved to approximately 38 days (2012: 43 days) which was at a normal level.

Trade receivables

As at 31 December 2013, the trade receivables amounted to RMB414,055,000 (as at 31 December 2012: RMB378,529,000). We granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days. The turnover day for trade receivables was maintained at 100 days (2012: 100 days).

Bills receivables

As at 31 December 2013, the bills receivables amounted to RMB467,981,000 (31 December 2012: RMB273,988,000). The increases was mainly attributable to the majority customers of the paper-based packaging products segment from Central China used the bills to settle the payment.

Trade payables

As at 31 December 2013, the trade payables amounted to RMB463,471,000 (as at 31 December 2012: RMB279,167,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The turnover day for trade payables was lengthened to 115 days (2012: 105 days).

Borrowings

As at 31 December 2013, the Group's borrowings balance amounted to RMB846,857,000 (as at 31 December 2012: RMB734,491,000).

Gearing ratio

As at 31 December 2013, the gross gearing ratio was approximately 41.02% (as at 31 December 2012: 40.73%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 108.88%, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2012: 81.43%).

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 31 December 2013, the Group pledged certain assets with carrying value of RMB662,345,000 as collateral for the Group's borrowing (as at 31 December 2012: RMB637,159,000). Please refer to note 36 to the Consolidated Financial Statements of the Company for details.

Capital commitments

As at 31 December 2013, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB282,089,000 (as at 31 December 2012: RMB62,216,000). All the capital commitments were related to purchasing new properties, factories and facilities, the leasing of land as well as the acquisition of new subsidiaries. Please refer to note 38 to the Consolidated Financial Statements of the Company for details.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2013.

Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currency of United States and the currency of Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

HUMAN RESOURCE MANAGEMENT

The Group had 3,883 employees as at 31 December 2013 (as at 31 December 2012: 3,730 employees). The staff costs amounted to RMB144,265,000 for the year ended 31 December 2013 (for the year ended 31 December 2012: RMB153,053,000).

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

The Company has also adopted a share option scheme (the "Share Option Scheme") with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimize their contributions to the Group and to reward them for their contribution to the Group.

In 2012, options to subscribe for a total of 21,350,000 shares in the Company were granted to the Directors and the employees under the Share Option Scheme. As at 31 December 2013, there are 14,090,000 valid subscription of the shares options to the Directors and the employees.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Hu Zheng (胡正), aged 51, is currently the vice president of the China Packaging Federation. Within our Group, he is the Chairman, executive Director and one of the founders. Furthermore, Mr. Hu Zheng is the Chairman of the nomination committee and member of the remuneration committee. Mr. Hu Zheng is responsible for overseeing the overall corporate management, operation and development planning and had over 20 years of experience in the paper-making and packaging industries. Prior to founding our Group, Mr. Hu Zheng worked as a technician and as assistant engineer at a then state-owned paper factory since 1983 then he was a director of a PRC paper and packaging products manufacturing factory, responsible for the management of daily operation and strategic planning from 1990 to 2003. In October 1981, Mr. Hu Zheng graduated from Guangdong Foshan Vocational College (廣東佛山職業技術學院) (formerly known as Guangdong Foshan Region Agricultural Mechanical College (廣東省佛山地區農業機械化學校)) and completed a Master of Business Administration at the Macau University of Science and Technology (澳門科技大學) in August 2001. Mr. Hu Zheng is the brother of Mr. Hu Hancheng (an executive Director and a substantial shareholder of the Company (the "Shareholder") through his interests in Golden Century Assets Limited) and Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Hanxiang (a non-executive Director).

Mr. Hu Hancheng (胡漢程), aged 54, has been appointed an executive Director since 4 March 2011. He is also the Chief Executive Officer and the Vice-Chairman of the Company, responsible for the comprehensive operation management of the Group. He joined the Group in 2003 and has been the legal representative of Zheng Ye Packaging (Zhongshan) Company Limited, an indirectly wholly-owned subsidiary of the Company, since December 2007. Mr. Hu Hancheng is also the president of the packaging business division of the Group in charge of the management and operation of the packaging business division. Prior to joining the Group, Mr. Hu Hancheng was the general manager of a PRC packaging products manufacturing factory from 1997 to 2003 responsible for the overall operational management of the business. Mr. Hu Hancheng is currently the vice president of Zhongshan Association of Packaging Industry. In January 1995, Mr. Hu Hancheng completed an economic management program at the Guangdong Polytechnic College (廣東省工程職業技術學院) formerly known as Guangdong Province Adult Technology University (廣東省成人科技大學). Mr. Hu Hancheng is brother of Mr. Hanchao and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hanchao (胡漢朝), aged 56, joined our Group in 2003 and he was appointed as a Director in September 2010 then was designated as an executive Director in March 2011 and appointed as Vice Chairman in November 2012. Mr. Hu Hanchao is responsible for the daily operations management of the Group and supervised the daily comprehensive operation management in paper division. He has been involved in corporate management for more than 27 years. Prior to joining the Group, Mr. Hu Hanchao was the deputy general manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the overall operational management of the business and before that he was the assistant manager of Xinhua Bookshop from 1985 to 1994. In August 1985, Mr. Hu Hanchao graduated from Zhongshan Municipal Communist Party Cadre School (中山市幹部學校). Mr. Hu Hanchao is the brother of Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited), Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited) and Mr. Hu Hanxiang (a non-executive Director).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Weixin (陳維新), aged 56, joined our Group in 2003 and appointed as an executive Director in September 2012. Mr. Chen has 30 years of experience in papermaking technology and corporate management. He served as the engineer in Guangdong Zhongshan Paper Factory (廣東省中山造紙廠) from 1982 to 1992 and subsequently worked in several papermaking enterprises during the period from 1992 to 2003 assisting with the general business operations management. Mr. Chen graduated in 1982 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making processes (undergraduate diploma). He completed the refresher course of South China University of Technology (華南理工大學) in 1989 and was awarded a diploma of industrial management.

Mr. Yin Wenxin (尹文欣), aged 57, joined our Group in 2003 then he was appointed as an executive Director in September 2012. Prior to his becoming an executive Director, Mr. Yin was the executive president of our Group's packaging business division responsible for the operations management. Mr. Yin has been involved in the production management and research of recycled paper and packaging products for over 30 years. Prior to joining our Group, Mr. Yin worked for Gannan Paper Factory (贛南造紙廠) as an engineer from 1976 to 1994. Thereafter, he was the vice president at a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the operations management. Mr. Yin graduated from Jiangxi Radio & TV University (江西廣播電視大學) in August 1983 majoring in mechanics.

Non-Executive Directors

Mr. Hu Hanxiang (胡漢祥), aged 59, joined our group in 2004 as a supervisor of Zhongshan Yong Fa Paper and he was appointed as a non-executive Director in March 2011. Prior to joining the Group, Mr. Hu Hanxiang had worked for the Guangdong Provincial Light Industry Bureau for 20 years and was the department chief of the Personnel Affairs and Education Department of Guangdong Provincial Light Textile Industry Office from 1995 to 2000, responsible for human resources management. In July 1986, Mr. Hu Hanxiang graduated from Guangdong Province Economic Management Bureau College (廣東省經濟管理幹部學院). Mr. Hu Hanxiang is the brother of Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited), Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited).

Independent Non-Executive Directors

Prof. Zhu Hongwei (朱宏偉), aged 50, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. He was an independent director of Guangdong Hydropower Engineering Group Company Limited during the period from September 2003 to December 2009. Prof. Zhu was an associate professor of Guangdong Polytechnic Normal University from February 2006 to December 2010 after which he has been appointed as a professor. He has in-depth knowledge in corporate management, having received tertiary education and undertaken faculty and research positions at various universities. Prof. Zhu graduated from Sichuan University (四川大學) with a Bachelor of Science degree in July 1983 and holds a Master of Science degree awarded by Zhejiang University (浙江大學) formerly known as Hangzhou University (杭州大學) in June 1990 and a doctorate degree in corporate management awarded by Zhongnan University of Economics and Law (中南財經政法大學) in June 2000.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Youjun (吳友俊), aged 46, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Wu has been currently chairman of the Guangdong Branch of Yinji Bank of Investment Guarantee Company Limited (銀基擔保有限公司) since May 2008. Mr. Wu was the vice supervisor of the Guangzhou Representative Office of Ng & Shum Solicitors & Notaries of Hong Kong and acts as its head of the China Department from 1994 to 1998. Mr. Wu studied industrial enterprises management at the Southwestern University of Finance and Economics (西南財經大學) and graduated in June 1989, and studied banking and currencies at the Jinan University (暨南大學) and graduated in January 1998, followed by a Master of Business Administration degree from the Macau University of Science and Technology in October 2001.

Mr. Chung Kwok Mo John (鍾國武), aged 45, joined the Company on 4 March 2011 as an independent non-executive Director. Furthermore, he is the Chairman of both audit committee and remuneration committee and also a member of nomination committee of the Company. Mr. Chung has over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung is an independent non-executive Director of BYD Electronic (International) Company Limited (a company listed on the Stock Exchange and stock code: 285) from June 2013. Mr. Chung is acting as the external consultants of Xiwang Special Steel Company Limited (a company listed on the Stock Exchange and stock code: 1266) and Xiwang Property Holdings Company Limited (formerly known as Xiwang Sugar Holdings Company Limited, (a company listed on the Stock Exchange and stock code: 2088)). Before that, Mr. Chung was an auditor in an international accounting firm during 1992 to 1999. Since 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. Chung graduated from Macquarie University, Australia in 1992 with a Bachelor of Economics degree, then became a member of Hong Kong Institute of Certified Public Accountants in 1996 and that of CPA Australia in 1995.

Senior Management

Mr. Hong Guanghua (洪光華), aged 50, joined our Group in 2003. Mr. Hong is the general manager of Zhongshan Yong Fa Paper assisting with the operation and management of Zhongshan Yong Fa Paper. Mr. Hong has 28 years of experience in the management of paper production, during which he has developed from technical and production supervision to system management of the entire papermaking process. Mr. Hong has worked in the paper manufacturing division of Zhongshan Sugar Group as the assistant engineer (助理工程師). Prior to joining our Group, Mr. Hong was the production manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the production management of the business. Mr. Hong graduated from South China University of Technology (華南理工大學) in 1984 majoring in light industry mechanics and completed the Master of Business Administration from Asia International Open University (Macau) in August 2004. He holds the title of light-industry mechanical engineer (輕工機械工程師) awarded by Zhongshan Intermediate Engineering Technician Assessment Committee (中山市工程技術人員中級職務評審委員會) in April 1992.

Mr. Fu Zhongyang (符中揚), aged 55, joined our Group in 2003. Mr. Fu is deputy general manager of Zhongshan Yong Fa Paper and is in charge of the sales operation. Mr. Fu has over 22 years of experience in paper sales with expertise in paper-making and economics. Mr. Fu was a technician at Zhongshan Sugar Group from 1980 to 1986 and was involved in the marketing of paper products since 1988. Prior to joining our Group, Mr. Fu was the sales manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2001 to 2003 responsible for the sales of paper products. Mr. Fu graduated from the Department of Management Engineering of South China University of Technology (華南理工大學) in July 1988, majoring in industrial management. Mr. Fu was awarded the titles of assistant engineer (助理工程師) in paper-making processes in December 1989 and assistant economist by Zhongshan Science and Technology Committee (中山市科學技術委員會) in July 1992 and economist by the Ministry of Personnel of the PRC in October 1996.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Du Zigan (杜梓干), aged 50, joined our Group in 2003. Mr. Du is the executive general manager of Hubei Yong Fa Paper and is in charge of the operation and management. Mr. Du has 29 years of experience in the enterprise management of production. Mr. Du commenced his career as technician and electrician at thermoelectric power factory of Zhongshan City Zhongtang Group (中山市中糖集團熱電廠) and was the factory manager from 1996 to 2003. After joining our Group, Mr. Du was the factory manager of thermoelectric power factory of Zhongshan Yong Fa Paper and the deputy general manager of the Company. Mr. Du graduated from Economic Management School of Guangdong Provincial Party School (廣東省委黨校經濟管理學院) in 2000, majoring in economic management.

Mr. Zhang Xiaoming (張曉明), aged 51, joined our Group in 2003. Mr. Zhang is the deputy vice president of packaging business division of the Group responsible for the project and corporate management of the division. Mr. Zhang has been involved in the papermaking and packaging industry for over 27 years with a strong edge in administration having spent years in a management capacity. Prior to joining our Group, Mr. Zhang worked for Guangdong Zhongshan Paper Factory and was the deputy general manager of a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the overall sales management of the business. Mr. Zhang graduated in July 1985 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring in pulp paper making.

Mr. Li Jun (李俊), aged 51, joined our Group in 2003. Mr. Li is the sales vice president of packaging business division of the Group to responsible for the management of the marketing centre of the division. Mr. Li has been involved in paper-making process technologies and sales management of packaging products since graduation. Prior to joining our Group, Mr. Li worked for Chenzhou Hongqi Paper Factory (郴州紅旗造紙廠) from 1982 to 1993 and was responsible for the production technology and subsequently at Chenzhou Hongqi Number Two Paper Factory (郴州第二造紙廠) as assistant plant manager till 1996. Mr. Li was the head of the transportation department at a PRC packaging products manufacturing factory from 1999 to 2003 responsible for the inventory and logistics management of the business. Mr. Li graduated from Hunan Vocational College for Light Industry (湖南省輕工業專科學校) in July 1982, majoring in paper-making processes, and obtained professional qualification as an engineer (工程師) awarded by Human Resources Bureau of Hunan Province (湖南省人事廳) in July 1992.

Mr. Huang Zhichang (黃志昌), aged 51, joined our Group in 2004. Mr. Huang is the general manager of the Group and is in charge of project development. Mr. Huang has over 27 years of experience in the technology, production and management of papermaking industry. He was a director of Paper-making Institute of Guangdong Province (廣東省造紙學會). Prior to joining our Group, he served as the engineer and head of technology reform office in Guangdong Zhongshan Paper Factory from 1983 to 2004, and was responsible for production management and technology reform. Mr. Huang graduated in 1983 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring in pulp paper making processes (undergraduate diploma).

Mr. Jiang Xianfan (江賢范), aged 43, joined our Group in 2009. Mr. Jiang is the deputy general manager of the Group in charge of the overall project and technology management. Mr. Jiang has 19 years of experience in paper-making, having been posted to China Light Industry Nanning Design Work Company Limited (中國輕工業南寧設計工程有限公司) since graduation, during which he was involved in the design of numerous large-scale projects. Mr. Jiang graduated from Nanjing Forestry University (南京林業大學) in June 1992, majoring in pulp paper manufacturing and holds the title of senior engineer awarded by China Haicheng International Engineering Investment Institute (中國海誠國際工程投資總院) in December 2003.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Fengming (劉風鳴), aged 53, joined our Group in 2004. Mr. Liu is the assistant general manager of the Group and is in charge of project development. Before joining our Group, Mr. Liu worked on paper making mechanic design and project management. Mr. Liu worked at Tianjin Paper Making Machinery Factory (天津造紙機械廠) and was in charge of paper making mechanical design and research from 1981 to 2004. Mr. Liu has over 30 years of experience in paper making technology and enterprises management. Mr. Liu obtained the title of senior engineer awarded by Human Resources Bureau of Tianjin (天津市人事廳) in July 2000. Mr. Liu graduated from Tianjin City Vocational College (天津城市職業學院) in 1987, majoring in mechanical engineering.

Mr. Chu Deliang (褚德亮), aged 48, joined our Group in 2003. Mr. Chu is the assistant to chairman responsible for capital department and formulating our Group's investment strategies. Mr. Chu has over 26 years of experience in the accounting field. He was conferred the title of accountant by Human Resources Bureau of Hubei Province (湖北省人事廳) in September 1992 and the title of PRC certified public accountant in September 1999. He qualified as a certified public valuer approved jointly by the Ministry of Personnel and the Ministry of Finance of the PRC in September 2000. Mr. Chu further qualified as a registered tax agent as approved by the State Administration of Taxation of the PRC in June 2001.

Ms. Chen Wei (陳威), aged 38, joined our Group in 2007. Ms. Chen is the Chief Financial Officer of the Group and responsible for financial operations of the Group comprehensively. Ms. Chen has over 12 years of experience in financial management and tax services. She served as financial supervisor in several papermaking enterprises and group companies during the period from 1995 to 2001 and was in charge of accounting and financial management matters. Prior to joining our Group, Ms. Chen served as account manager and tax consultant in Zhongshan large-scale tax agent from 2005 to 2007. Ms. Chen completed the accounting course of Jinan University (暨南大學) in December 2005 and obtained a undergraduate diploma. Thereafter, she was awarded the Master of Business Administration degree from the University of Wales in April 2011, and obtained the title of senior accountant awarded by Human Resources Bureau of Guangdong Province (廣東省人事廳) in December 2008. In September 2009, Ms. Chen obtained professional qualification as a senior international finance manager awarded by International Financial Management Association. She is the member of International Financial Management Association.

Company Secretary

Ms. Chan Yin Wah (陳燕華), aged 38, was appointed as the Company Secretary and the Authorized Representative of the Company in December 2011. Ms. Chan is an Associate Director of SW Corporate Services Group Limited. She has over 16 years of professional experience in handling the corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She has worked for various international professional firms and listed companies in Hong Kong. Ms. Chan holds a bachelor's degree in economics and a master's degree in professional accounting. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants.

CORPORATE GOVERNANCE REPORT

The directors of the Company (the "Directors") are pleased to present the corporate governance report in the annual report of the Company for the year ended 31 December 2013 (the "Year").

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

The Company has complied with the code provisions set out in the Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2013.

CORPORATE GOVERNANCE REPORT

Board of Directors

The board of directors (the "Board") of the Company has a balance of skill and experience and a balanced composition of Executive and Non-executive Directors, the overall management of the Company's business was vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. The Board comprised nine members, consisting of five Executive Directors namely, Mr. Hu Zheng (Chairman), Mr. Hu Hancheng (Vice-Chairman and Chief Executive Officer), Mr. Hu Hanchao (Vice-Chairman and Chief Operating Officer), Mr. Chen Weixin and Mr. Yin Wenxin, one Non-Executive Director namely, Mr. Hu Hanxiang and three Independent Non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei as at 31 December 2013. The Directors are well-versed in respective areas such as knowledge and technical know-how of paper-making and packaging industries, accounting and finance and business management. The Board as a whole has achieved an appropriate balance of skills and experience. The profiles of all directors and the relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are set out on pages 17 to 19.

The Company has received from each of Independent Non-executive Directors an annual confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules.

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

The dates of the 2013 regular Board meetings were determined according to the requirement of the Bye-laws and any amendments to this schedule were notified to all the Directors at least 14 days before the meeting. Suitable arrangements were in place to allow the Directors to include items in the agenda for regular Board meetings.

If a Director had a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual Director would declare his interest and was required to abstain from voting. The matter would then be considered at a Board meeting attended by independent Directors who had no material interest in the transaction.

CORPORATE GOVERNANCE REPORT

Details of the attendance of Directors at these Board meetings and at the meetings of three Board committees (the Audit Committee, the Remuneration Committee and the Nomination Committee) and the annual general meeting (the "AGM") are set out in the following table:

	Meetings Attended/Meetings Held				
Name of directors	**Board Meeting**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Mr. Hu Zheng	4/4	N/A	1/1	2/2	1/1
Mr. Hu Hancheng	4/4	N/A	N/A	N/A	1/1
Mr. Hu Hanchao	4/4	N/A	N/A	N/A	1/1
Mr. Chen Weixin	4/4	N/A	N/A	N/A	1/1
Mr. Yin Wenxin	4/4	N/A	N/A	N/A	0/1
Non-Executive Director					
Mr. Hu Hanxiang	4/4	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Chung Kwok Mo John	4/4	2/2	1/1	1/2	1/1
Mr. Wu Youjun	4/4	2/2	1/1	2/2	1/1
Prof. Zhu Hongwei	4/4	2/2	1/1	2/2	1/1

Mr. Yin Wenxin did not attend the 2013 AGM as he had other prior business engagement.

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

Minutes of Board meetings and meetings of Board committees, together with any supporting documents, were available to all Directors. Draft and final versions of the minutes were sent to all Directors for their comment and record respectively.

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Company has adopted a board diversity policy (the "Policy") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, industry experience, skills, knowledge and length of service.

The Board recognised the benefits of diversity in the Board in enhancing the Board effectiveness and corporate governance. The Nomination Committee gives consideration to a number of factors as set out in the Policy when identifying suitably qualified candidates to become members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service. The Board is considered well balanced and of a diverse mix appropriate for the business of the Company. The Company also takes into account its own business model and specific needs from time to time to determine the optimum composition of the Board. The Company reviews the Policy on a regular basis to ensure its continued effectiveness.

Board Committees

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, throughout the year ended 31 December 2013. During the Year, these committees adhered to their principles, procedures and arrangements set out above. The respective committee secretary or designated person took full minutes of the meetings of these committees and the work of these committees was reported to the Board regularly.

Chairman and Chief Executive Officer ("CEO")

Under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

During the Year, Mr. Hu Zheng was the Chairman and Mr. Hu Hancheng was the CEO of the Company for the purpose of maintaining and more balanced basis for judgments and decisions. The Board viewed that, under the leadership of Mr. Hu Zheng as the Chairman of the Company, taking up the role of providing leadership for the Board and ensures that the Board works effectively and discharges its responsibility properly. It can also ensure that the Board acts in the best interests of the Company and the Group.

Mr. Hu Hancheng as the CEO of the Company, was delegated with the authority and responsibility to operate the Group's business and day-to-day operation, and implemented the Group's strategy with respect to the achievement of the business objectives with the assistance of the Executive Directors and the senior management.

CORPORATE GOVERNANCE REPORT

Responsibilities of and Delegation by the Board

The Board is responsible for the overall leadership of the Group, overseas the Group's strategic decisions and monitors business and performance.

The management, consisting of executive Directors along with the senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day operations of the Group. Executive Directors and the senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Non-Executive Directors

Each of Independent Non-executive Directors and Non-executive Director was appointed with specific terms. Each of them had signed a letter of appointment with the Company for a term of 1 year commencing from 4 March 2013 and is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company (the "Bye-laws").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, the Company confirms that all Directors have complied with the required standards set out in the Model Code throughout the year ended 31 December 2013.

Directors and Officers Liability Insurance

Liability insurance for Directors and senior management of the Company was arranged by the Company with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

Corporate Governance Functions

The Board has adopted the terms of reference on corporate governance functions on 23 March 2012. The terms of reference of the Board in respect of corporate governance functions are summarized as follows:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

CORPORATE GOVERNANCE REPORT

(c) to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the code provisions set out in the Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2013 included developing and reviewing the Company's policies on corporate governance and making relevant recommendations.

Continuous Professional Development

Under Rule A.6.1 and Rule A.6.5 of the Code in relation to Directors' training, except Mr. Chung Kwok Mo John, all Directors namely Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao, Mr. Chen Weixin, Mr. Yin Wenxin, Mr. Hu Hanxiang, Mr. Wu Youjun and Prof. Zhu Hongwei have completed continuous professional development training by attending the in-house training of "Corporate Diversification, Acquisition and Restructuring" organized by a consultancy training company engaged by the Company. Mr. Chung Kwok Mo John attended the training of "Boardroom Briefing for INEDs: Challenges of Discharging Responsibilities as INEDs" and "Environmental, Social and Governance Reporting Guide and Listing Compliance Update" held by external organizations. All Directors have provided a training record to the Company.

Remuneration Committee

The Company has established a Remuneration Committee for the purposes of making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management.

The Remuneration Committee presently comprises one Executive Director, namely Mr. Hu Zheng and three Independent Non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei. The Committee is chaired by Mr. Chung Kwok Mo John. The Remuneration Committee held one meeting during the Year and details of attendance are shown in the table on page 24 of this annual report. The work performed by the Remuneration Committee during the year ended 31 December 2013 included the following matters:

- make recommendations to the Board of the remuneration of Non-executive Directors for the year ended 31 December 2013. The Remuneration Committee has considered factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

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

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

CORPORATE GOVERNANCE REPORT

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

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

Nomination Committee

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

The Company has established a Nomination Committee for the purpose of making recommendations to the Board on the appointment of Directors.

The Nomination Committee presently comprises four Directors, including the Chairman, Mr. Hu Zheng, an Executive Director, and three Independent Non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei. The Committee is chaired by Mr. Hu Zheng.

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

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

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

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

CORPORATE GOVERNANCE REPORT

Three Executive Directors, namely, Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao had entered into a service contract with the Company for a period of three years commencing from 4 March 2011, which is renewable automatically for successive terms of one year upon expiry of the then current term of his appointment, unless terminated in accordance with the terms of the service contract. Two Executive Directors, namely Mr. Chen Weixin and Mr. Yin Wenxin had entered into a service contract with the Company for a period of 2 years and 4 months commencing from 1 September 2012. The Non-executive Director and each of the Independent Non-executive Directors had signed a letter of appointment with the Company for a term of one year commencing from 4 March 2013 and is renewable upon its expiration and may be terminated in accordance with the terms of the letter of appointment. During the financial year ended 31 December 2013, there were two meetings held by the Nomination Committee. Details of attendance are shown in the table on page 24.

The work of the Nomination Committee during the year ended 31 December 2013 included the following matters:

- to make recommendation and adopt Board Diversity Policy;
- to make recommendation to the Board on renew service contracts of Non-executive Director and Independent Non-executive Directors;
- to make recommendation to the Board on appointment of Chief Operating Officer and the remuneration;
- to make recommendation to the Board on the adoption of the revised terms of reference in relation to the Board Diversity of Nomination Committee effective from 1 September 2013; and
- to assess the independence of the Independent Non-executive Directors.

Auditors' Remuneration

For the year ended 31 December 2013, the fees charged by the Company's auditors in respect of audit and non-audit services amounted to approximately RMB1,400,000 and RMB2,533,000 respectively. The amount for 2013 non-audit services comprised mainly the acquisition of Lian He and Lian Xing paper mills.

Audit Committee

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls.

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

The Audit Committee held two meetings during the year and details of attendance are shown in the table on page 24. The work of the Audit Committee during the year ended 31 December 2013 included of the following matters:

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

CORPORATE GOVERNANCE REPORT

- review and monitor external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discuss with external auditors before audit commences, the nature and scope of the audit and reporting obligations;
- monitor integrity of financial statements, interim report and annual report, and review significant financial reporting judgments contained in them;
- review financial controls, internal controls and risk management systems;
- discuss with management regarding the system of internal controls and ensure that management has discharged its duty to have an effective internal control system including adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and their training programmes and budget;
- ensure co-ordination between internal and external auditors, and to ensure that internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of internal audit function;
- review financial and accounting policies and practices; and
- review external auditors' management letter, any material queries raised by auditors to management in respect of accounting records, financial accounts or systems of control and management's response.

Directors' and Auditors' Responsibilities for Accounts

The Directors acknowledge the responsibilities for preparing the accounts of the Company. The external auditors' statement about their reporting responsibilities is set out on page 44.

Going Concern

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Controls

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

CORPORATE GOVERNANCE REPORT

Company Secretary

Ms. Chan Yin Wah of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as the company secretary since December 2011, her biographical details are set out in the section headed "Profiles of Directors and Senior Management" in this annual report. Ms. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the year. The primary contact person of the Company is Ms. Chen Wei, Chief Financial Officer.

Communication with Shareholders

The Company endeavors to maintain an on-going dialogue with its shareholders, and in particular through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 30 May 2014 to answer any questions from shareholders.

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

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

Shareholders' Rights

Right to convene extraordinary general meeting and putting forward proposals at shareholders' meetings

Pursuant to the Bye-laws 65 of the Bye-laws and Section 74(1) of the Bermuda Companies Act, in addition to regular Board meetings, the Directors of the Company, on the requisition of shareholders of the Company holding not less than one-tenth of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the principal place of business of the Company in Hong Kong. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Right to put forward enquiries to the Board

Shareholders' enquiries can be directed to the principal place of business of the Company in Hong Kong. The address is set out in the "CORPORATE INFORMATION" section of this annual report for the attention of the Company Secretary.

Constitutional Documents

There are no significant changes in the Company's constitutional documents during the Year.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders their report together with audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2013.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are manufacturing and sale of paper, paperboard and paper-based packaging products. The principal activities of the subsidiaries are set out in note 43 to the consolidated financial statements.

Results and Approportions

The results of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 45 to 103 of this annual report.

The Directors now recommend the payment of a final dividend of RMB2.09 cents per share to the shareholders on the register of members on 5 June 2014, amounting to approximately RMB10,450,000 and the retention of the of the remaining profit for the year approximately RMB24,378,000.

The dividend will be payable in HK$. The exchange rate will be based on the opening indicative counter exchange rate (Buying TT for RMB) as on 30 May 2014 (the date of AGM of the Company) disclosed by The Hong Kong Association of Banks.

Property, Plant and Equipment

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

Share Capital

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

Distributable Reserves

Distributable reserves of the Company as at 31 December 2013, calculated in accordance with the provision of the Bermuda Companies Act 1981, amounted to RMB33,232,000.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 104 of this annual report.

Reserves

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

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities shares during the year ended 31 December 2013.

Pre-Emptive Rights

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

DIRECTORS' REPORT

Directors

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

Executive Directors

Mr. HU Zheng (Chairman)
Mr. HU Hancheng (Vice-Chairman and Chief Executive Officer)
Mr. HU Hanchao (Vice-Chairman and Chief Operating Officer)
Mr. CHEN Weixin
Mr. YIN Wenxin

Non-Executive Director

Mr. HU Hanxiang

Independent Non-Executive Directors

Mr. CHUNG Kwok Mo John
Mr. WU Youjin
Prof. ZHU Hongwei

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

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

Directors and Senior Management

The biographical details of Directors and Senior Management are set and on page 17 to 21 of this annual report.

Directors' Service Contracts

The executive Directors namely, Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao have entered into service contracts with the Company for a term of three years commencing from 4 March 2011, which are renewable for terms of one year upon expiry of the then current term of their appointment. Mr. Chen Weixin and Mr. Yin Wenxin has entered into service contracts with the Company for a term of two years and four months commencing from 1 September 2012. Both are subject to termination by either party giving not less than three months' written notice to the other.

The non-executive Director, Mr. Hu Hanxiang and each of the independent non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei have been appointed for a term of one year commencing from 4 March 2013 and are subject to termination by either party giving not less than three months' written notice to the other.

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

DIRECTORS' REPORT

Emolument Policy

The emolument policies of the Directors and other employees are formulated based on individual experience, qualification and over market situation and are reviewed regularly, while the bonus is related to the financial performance of the Group and the individual performance. The Directors' remunerations are subject to shareholders' approval at general meetings.

The remuneration of the members of the senior management by band for the year ended 31 December 2013 was set out below:

Remuneration band (RMB)	Number of individuals
0–500,000	2
500,001–1,000,000	3
1,000,001 or above	5

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

Director's Interest in Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 42 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests in the Securities of the Company or its Associated Corporations", and "Share Option Scheme", at no time during the Year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors' and Chief Executives' Interests in the Securities of the Company or its Associated Corporations

As at 31 December 2013, the interests and short positions of the directors and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the ("SFO")) as recorded in the register to be kept by the Company pursuant to Section 352 of the SFO or as otherwise as required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

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

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 31 December 2013.
2. These shares were held by Gorgeous Rich, which was wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.
3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.
4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.
5. These shares were held by Fortune View, which was wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang was deemed to be interested in the shares held by Fortune View.

Share Options to subscribe for the ordinary shares of HK$0.10 each in the Company were granted to, among others, certain Directors pursuant to the Share Option Scheme adopted by the Company on 3 June 2011. Information in relation to these Share Options was shown in the following section under the heading "Share Option Scheme".

Save as disclosed above and in the paragraph headed "Share Option Scheme" below, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept by the Company under Section 352 of the SFO.

Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2013, so far as are known to any Director or chief executive of the Company, the persons (other than the Directors and the chief executive(s) of the Company) were recorded in the register kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company, as leasing directly or indirectly interested or deemed to the interested in 5% or more of the issued share capital of the Company.

Name of Shareholder	Capacity/ Nature of interest	Number and class of shares held in the Company percentage (Note 1)	Approximate shareholding percentage
Gorgeous Rich (Note 2)	Beneficial owner	191,250,000 ordinary shares of HK$0.10 each	38.25%
Ms. Li Lifen (Note 2)	Interest of spouse	191,250,000 ordinary shares of HK$0.10 each	38.25%
Golden Century (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK$0.10 each	18.75%
Ms. Li Siyuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK$0.10 each	18.75%
Leading Innovation (Note 4)	Beneficial owner	75,000,000 ordinary shares of HK$0.10 each	15.00%
Ms. He Lijuan (Note 4)	Interest of spouse	75,000,000 ordinary shares of HK$0.10 each	15.00%

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant shareholder(s) was/were interested in expressed as a percentage of the number of issued shares in the Company as at 31 December 2013

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

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

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

Save as disclosed above, no other interest or short position in the shares or underlying shares in the Company were recorded in the Register.

DIRECTORS' REPORT

Share Option Scheme

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

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

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of listing (that is 50,000,000 shares, representing 10% of the issued share capital as at the date of the annual report), unless shareholders' approval has been obtained, and in any event must not in aggregate exceed 30% of the share of the Company in issue from time to time. The total number of share issued and to be issued upon the exercise of the options granted to or to be granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the share of the Company in issue.

The exercise price for the shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("Offer Date"); the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and the nominal value of the Company's shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

DIRECTORS' REPORT

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2013 is as follows:

Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	Number of share options: As at 1 January 2013	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2013
Hu Zheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	160,000	–	–	160,000	–
		0.82	1 July 2013 to 30 June 2014	170,000	–	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	170,000	–	–	–	170,000
Hu Hancheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	160,000	–	–	160,000	–
		0.82	1 July 2013 to 30 June 2014	170,000	–	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	170,000	–	–	–	170,000
Hu Hanchao (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	160,000	–	–	160,000	–
		0.82	1 July 2013 to 30 June 2014	170,000	–	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	170,000	–	–	–	170,000
Chen Weixin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	830,000	–	–	830,000	–
		0.82	1 July 2013 to 30 June 2014	830,000	–	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	840,000	–	–	–	840,000
Yin Wenxin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	830,000	–	–	830,000	–
		0.82	1 July 2013 to 30 June 2014	830,000	–	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	840,000	–	–	–	840,000
Hu Hanxiang (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	130,000	–	–	130,000	–
		0.82	1 July 2013 to 30 June 2014	130,000	–	–	–	130,000
		0.82	1 July 2014 to 30 June 2015	140,000	–	–	–	140,000
Chung Kwok Mo John (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	100,000	–	–	100,000	–
		0.82	1 July 2013 to 30 June 2014	100,000	–	–	–	100,000
		0.82	1 July 2014 to 30 June 2015	100,000	–	–	–	100,000
Wu Youjun (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	50,000	–	–	50,000	–
		0.82	1 July 2013 to 30 June 2014	50,000	–	–	–	50,000
		0.82	1 July 2014 to 30 June 2015	50,000	–	–	–	50,000
Zhu Hongwei (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	50,000	–	–	50,000	–
		0.82	1 July 2013 to 30 June 2014	50,000	–	–	–	50,000
		0.82	1 July 2014 to 30 June 2015	50,000	–	–	–	50,000
Employees	20 January 2012	0.82	20 January 2012 to 30 June 2013	4,790,000	–	–	4,790,000	–
		0.82	1 July 2013 to 30 June 2014	4,510,000	–	–	–	4,510,000
		0.82	1 July 2014 to 30 June 2015	4,550,000	–	–	–	4,550,000

Details of the valuation of the options granted under the Share Option Scheme during the year are set out in note 39 to the consolidated financial statements

DIRECTORS' REPORT

Connected Transactions

Certain related party transactions as disclosed in note 42 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the prospectus of the Company dated 24 May 2011.

One-off connected transactions

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

Continuing connected transactions

The following transactions fall under the de minimis provision set forth in Rule 14A.33 of the Listing Rules and is therefore exempt from reporting, announcement and independent shareholders' approval.

Exempt Continuing Connected Transactions

Leasing of cars and trucks

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

During the year, the rental fee of cars and trucks from Zhong Fa Equipment amounted to RMB198,000 (2012: RMB198,000).

Non-Exempt Continuing Connected Transactions

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

Leasing of premises

Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)"), a wholly-owned subsidiary of the Company and Zhongshan City Zheng Ye Leasing Company Limited (formerly known as Zhongshan City Zheng Ye (Group) Company Limited) ("Zheng Ye Leasing"), a limited company established in the PRC and owned as to 51%, 25%, 20% and 4% by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, respectively, entered into three tenancy agreements made between Zheng Ye Leasing as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting of the premises as summarized below:

- Date and subject matter of each tenancy agreement:

  — Tenancy agreement dated 1 January 2010 (as supplemented by two tenancy supplemental agreements dated 30 June 2010 and 3 July 2010) (the "First Tenancy Agreement") and renewed on 27 September 2013 (the "Renewed Tenancy Agreement No. 1") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..

— Tenancy agreement dated 28 September 2010 (the "Second Tenancy Agreement") and renewed on 27 September 2013 (the "Renewed Tenancy Agreement No. 2") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,844 sq.m..

— Tenancy agreement dated 28 September 2010 (the "Third Tenancy Agreement") and renewed on 27 September 2013 (the "Renewed Tenancy Agreement No. 3") in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

• Period:

— The First Tenancy Agreement: for an original term of one year from 1 January 2010 to 31 December 2010 which was extended for a further period of three years from the expiry of the original term to 31 December 2013 with a revised rental amount pursuant to the supplemental agreement dated 30 June 2010. The agreement renewed on 27 September 2013 for a term of one year from 1 January 2014 to 31 December 2014 (both dates inclusive) with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

— The Second Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013, the agreement renewed on 27 September 2013 for a term of one year and three months from 1 October 2013 to 31 December 2014 (both dates inclusive) with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

— The Third Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013, the agreement renewed on 27 September 2013 for a term of one year and three months from 1 October 2013 to 31 December 2014 (both dates inclusive) with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

• Monthly rental payable:

— The First Tenancy Agreement in amount of RMB287,000 and the Renewed Tenancy Agreement No. 1 in amount of RMB293,621).

— The Second Tenancy Agreement in amount of RMB63,000 and the Renewed Tenancy Agreement No. 2 in amount of RMB63,000 (from 1 October 2013 to 31 December 2013.) and RMB63,143 (from 1 January 2014 to 31 December 2014) respectively.

— The Third Tenancy Agreement in amount of RMB12,000 and the Renewed Tenancy Agreement No. 3 in amount of RMB12,000 (from 1 October 2013 to 31 December 2013) and RMB12,582 (from 1 January 2014 to 31 December 2014) respectively.

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

- Rental deposit paid:

  — The First Tenancy Agreement in amount of RMB300,000.

  — The Second Tenancy Agreement in amount of RMB100,000.

  — The Third Tenancy Agreement in amount of RMB50,000.

  — Rental deposit of the Renewed Tenancy Agreement No. 1, the Renewed Tenancy Agreement No. 2 and the Renewed Tenancy Agreement No. 3 are paid on the First Tenancy Agreement, the Second Tenancy Agreement and the Third Tenancy Agreement respectively.

During the Year, the rental fee of the premises from Zheng Ye Leasing amounted to RMB4,344,000 (2012: RMB4,344,000).

The independent non-executive Directors have reviewed the above continuing connected transactions of the Company and have confirmed that these transactions have been entered into:

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

(ii) on normal commercial terms; and

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

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

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

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

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

Corporate Governance

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

Mode Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2013.

DIRECTORS' REPORT

Major Customers and Suppliers

In the year under review, 47.86% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 24.89% of the Group's revenue for the year. 31.06% of the Group's total purchases was attributable to the Group's five largest supplier and purchases from the Group's largest supplier accounted for 7.53% of the Group is total purchases

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

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

The Company was listed on the Main Board of the Stock Exchange on 3 June 2011 by way of global offering as disclosed in the prospectus of the Company dated 24 May 2011 with net proceeds of approximately HK$134,400,000 (the "Net Proceeds") raised therefrom.

As at 31 December 2013, the Net Proceeds had been utilized in the following manner:

	Use and allocate of the Net Proceeds as original planned HK$'000	**Amount of the Net Proceeds utilized in the year ended 31 December 2013** HK$'000	**Amount of the Net Proceeds remains** HK$'000
Setting up the manufacturing factory in new product base in Hefei of the Anhui Province, the PRC	33,700	19,624	14,076
Setting up the manufacturing factory in new product base in Zhengzhou of the Henan Province, the PRC	26,800	26,800	–
Setting up the manufacturing factory in new product base in Wuhan of the Hubei Province, the PRC	13,500	13,500	–
Setting up the manufacturing factory in new product base in Shijiazhuang of the Hebei Province, the PRC	13,500	13,500	–
Upgrading our productive facility	24,200	24,200	–
Research and development	6,700	6,700	–
Upgrading our ERP system	2,700	2,040	660
General working capital	13,300	13,300	–
	134,400	119,664	14,736

DIRECTORS' REPORT

Directors' Interests in Competing Business

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

Sufficiency of Public Float

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

Event after Reporting Period

Details of significant events occurring after the reporting period are set out in note 41 to the consolidated financial statement.

Auditor

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

By order of the Board

Hu Zheng
Chairman

Hong Kong, 21 March 2014

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Zhengye International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 45 to 103, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	**2013** **RMB'000**	2012 RMB'000
Revenue	5	**1,445,749**	1,242,371
Cost of sales		**(1,173,815)**	(983,276)
Gross profit		**271,934**	259,095
Other income	7	**22,833**	11,576
Other gains and losses	8	**932**	129
Distribution and selling expenses		**(60,207)**	(50,606)
Administrative expenses (included share-based payment expenses)		**(100,404)**	(84,278)
Finance costs	9	**(49,018)**	(38,466)
Other expenses		**(1,372)**	–
Research and development cost		**(37,433)**	(35,283)
Profit before tax	11	**47,265**	62,167
Income tax expense	10	**(12,437)**	(10,750)
Profit and total comprehensive income for the year attributable to owners of the company		**34,828**	51,417
Earnings per share			
Basic (RMB)	15	**0.07**	0.10
Diluted (RMB)	15	**0.07**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Non-current Assets			
Property, plant and equipment	16	**604,449**	553,146
Prepaid lease payments	17	**94,123**	66,315
Other intangible assets	18	**3,733**	5,171
Deferred tax assets	30	**198**	–
Deposits for acquisition of property, plant and equipment		**7,528**	13,897
Deposit for leasehold land		**–**	28,800
Deposit for acquisition of subsidiaries	19	**14,191**	–
		724,222	667,329
Current Assets			
Inventories	20	**127,333**	116,487
Trade and other receivables	21	**915,912**	685,188
Prepaid lease payments	17	**2,178**	1,592
Short-term investment	23	**10,000**	–
Pledged bank deposits	24	**154,957**	206,338
Restricted bank deposits	24	**–**	415
Bank balances and cash	24	**127,680**	122,378
Tax recoverable		**2,361**	3,789
		1,340,421	1,136,187
Current Liabilities			
Trade and other payables	25	**603,111**	469,942
Tax liabilities		**5,722**	1,248
Borrowings	29	**846,857**	727,771
Obligations under finance leases	26	**28,279**	22,322
Amounts due to directors	27	**3,141**	2,048
Amount due to a related party	28	**–**	50
		1,487,110	1,223,381
Net Current Liabilities		**(146,689)**	(87,194)
Total Assets Less Current Liabilities		**577,533**	580,135

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Capital and Reserves			
Share capital	31	**41,655**	41,655
Share premium and reserves		**476,545**	456,117
Total Equity		**518,200**	497,772
Non-current Liabilities			
Deferred tax liabilities	30	**3,044**	4,073
Deferred income	32	**23,800**	28,800
Borrowings	29	**–**	6,720
Obligations under finance leases	26	**32,489**	42,770
		59,333	82,363
		577,533	580,135

The consolidated financial statements on pages 45 to 103 were approved and authorised for issue by the board of directors on 21 March 2014 and are signed on its behalf by:

HU ZHENG
Director

HU HANCHENG
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital RMB'000	**Share premium** RMB'000	**Statutory reserve** RMB'000 (note)	**Share options reserve** RMB'000	**Other reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2012	41,655	92,968	76,369	105	(23,389)	283,079	470,787
Profit and total comprehensive income for the year	–	–	–	–	–	51,417	51,417
Transfer to statutory reserve	–	–	6,574	–	–	(6,574)	–
Recognition of equity-settled share-based payments	–	–	–	3,368	–	–	3,368
Dividends (note 14)	–	–	–	–	–	(27,800)	(27,800)
At 31 December 2012	41,655	92,968	82,943	3,473	(23,389)	300,122	497,772
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**34,828**	**34,828**
Transfer to statutory reserve	**–**	**–**	**7,797**	**–**	**–**	**(7,797)**	**–**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**1,000**	**–**	**–**	**1,000**
Dividends (note 14)	**–**	**–**	**–**	**–**	**–**	**(15,400)**	**(15,400)**
At 31 December 2013	**41,655**	**92,968**	**90,740**	**4,473**	**(23,389)**	**311,753**	**518,200**

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**47,265**	62,167
Adjustments for:		
Finance costs	**49,018**	38,466
Interest income	**(4,601)**	(4,274)
Depreciation of property, plant and equipment	**37,543**	28,281
Impairment losses recognised on trade receivables	**1,318**	–
Amortisation of prepaid lease payments	**2,045**	1,368
Amortisation of other intangible assets	**1,438**	1,438
Share-based payment expense	**1,000**	3,368
Loss on disposal of property, plant and equipment	**20**	74
Government grant	**(5,000)**	–
Operating cash flows before movements in working capital	**130,046**	130,888
Increase in inventories	**(10,846)**	(3,554)
Increase in trade and other receivables	**(232,042)**	(59,877)
Decrease (increase) in discounted bills receivables	**39,831**	(7,420)
Increase in trade and other payables	**131,306**	54,549
Increase (decrease) in amounts due to directors	**1,093**	(1,768)
Decrease in amount due to a related party	**(50)**	(16)
Withdrawal of restricted bank deposits	**–**	2,027
Receipt of government grant	**–**	5,000
Cash generated from operations	**59,338**	119,829
Income tax paid	**(7,762)**	(18,136)
NET CASH FROM OPERATING ACTIVITIES	**51,576**	101,693
INVESTING ACTIVITIES		
Interest received	**4,601**	4,274
Proceeds on disposal of property, plant and equipment	**446**	1,580
Purchase of property, plant and equipment	**(72,806)**	(136,473)
Purchase of prepaid lease payment	**(1,639)**	–
Purchase of short-term investment	**(10,000)**	–
Deposits paid for acquisition of property, plant and equipment	**(7,528)**	(13,897)
Deposits paid for acquisition of subsidiaries	**(14,191)**	–
Deposit paid for leasehold land	**–**	(28,800)
Placement of pledged bank deposits	**(386,762)**	(1,208,000)
Withdrawal of pledged bank deposits	**438,143**	1,095,917
Placement of restricted bank deposits	**–**	(415)
Withdrawal of restricted bank deposits	**415**	–
Receipt of government grant	**–**	23,800
NET CASH USED IN INVESTING ACTIVITIES	**(49,321)**	(262,014)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(49,764)**	(43,001)
Dividends paid	**(15,400)**	(27,800)
Repayment of borrowings	**(682,886)**	(699,268)
Repayments of obligations under finance leases	**(29,274)**	(19,876)
Addition in obligations under finance leases	**24,950**	–
New bank borrowings raised	**755,421**	941,952
NET CASH FROM FINANCING ACTIVITIES	**3,047**	152,007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,302**	(8,314)
CASH AND CASH EQUIVALENTS		
AT 1 January	**122,378**	130,692
CASH AND CASH EQUIVALENTS		
AT 31 December		
represented by bank balances and cash	**127,680**	122,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located in the PRC.

The Company acts as an investment holding company. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who collectively own 75% of the Company's share in aggregate and act in concert, are regarded as the controlling shareholders of the Company.

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in manufacturing and sale of paper, paperboard and paper-based packaging products. The Company and its subsidiaries are hereinafter collectively referred to as the "Group".

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

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of RMB146,689,000 as at 31 December 2013. On the basis that the Group has secured credit facilities of approximately RMB464,612,000 which remains unutilised at the date of the consolidated financial statements ended 31 December 2013, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

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

Amendments to HKAS 1 Presentation of Items of other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are 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 HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle[2]
HKFRS 9	Financial instruments[3]
HKFRS 14	Regulatory deferred accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate the application of these new and revised HKFRSs will have no impact on the consolidated financial statements.

3. Significant Accounting Policies

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share — based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

For recurring and non-current fair value measurement on non-financial assets, the determination of its fair value would be based on its highest and best use and its current use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

Service income is recognised when services are provided.

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

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

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost 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 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.

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

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

Leasing

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

The Group as lessee

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

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

3. Significant Accounting Policies (Continued)

Leasing (Continued)

The Group as lessee (Continued)

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

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

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Sales and lease back under finance lease

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised 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.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

3. Significant Accounting Policies (Continued)

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

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

Retirement benefit costs

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

Taxation

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

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

Deferred tax is recognised on 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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax 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 they relate 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.

Intangible assets

Research and development expenditure

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

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

3. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Research and development expenditure (Continued)

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 assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a 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 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 (other than financial assets and financial liabilities at fair value through profit or loss) 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 one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets classified as financial asset at FVTPL include short-term investment.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains" line item in the consolidated statements of profit or loss and other comprehensive income. The dividend or interest earned on the financial assets is included in the "other income" line item in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 34.

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, restricted bank deposits, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

Interest income is recognised by applying the effective interest rate, expect for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

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

Objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

Other financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and directors

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

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

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

Cancellation of share-based payment

When a grant of share options is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Group accounts for the cancellation or settlement as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

3. Significant Accounting Policies (Continued)

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. At 31 December 2013, the carrying amounts of property, plant and equipment are RMB604,449,000 (2012: RMB553,146,000).

4. Key Sources of Estimation Uncertainty (Continued)

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the recoverable amounts of the cash-generating units to which other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2013, the carrying amounts of intangible assets are RMB3,733,000 (2012: RMB5,171,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amounts of trade receivables are RMB414,055,000 (2012: RMB378,529,000).

5. Revenue

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

6. Segment Information

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

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

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

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

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

6. Segment Information (Continued)

(a) Segment revenue and results

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

For the year ended 31 December 2013

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	863,435	582,314	1,445,749
Inter-segment sales	14,721	93,440	108,161
Segment revenue	878,156	675,754	1,553,910
Eliminations			(108,161)
Group Revenue			1,445,749
Segment Profit	30,113	22,450	52,563
Eliminations			(390)
			52,173
Unallocated corporate expenses, net			(4,908)
Profit before tax			47,265

6. Segment Information (Continued)

(a) Segment revenue and results (Continued)

For the year ended 31 December 2012

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	722,241	520,130	1,242,371
Inter-segment sales	–	93,061	93,061
Segment revenue	722,241	613,191	1,335,432
Eliminations			(93,061)
Group Revenue			1,242,371
Segment Profit	25,101	43,045	68,146
Eliminations			(308)
			67,838
Unallocated corporate expenses, net			(5,671)
Profit before tax			62,167

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

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

6. Segment Information (Continued)

(b) Information about products

The following is analysis of the Group's revenue from its major products:

	2013 **RMB'000**	2012 RMB'000
Corrugated medium paper AA grade	**480,345**	357,184
Corrugated medium paper C grade	**52,066**	162,946
Color Box	**274,362**	114,568
Brown Box	**399,320**	505,004
HoneyComb Paper	**189,753**	102,669
Waste paper-raw material	**49,903**	–
Total	**1,445,749**	1,242,371

(c) Geographic information

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

(d) Information about major customers

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

	2013 **RMB'000**	2012 RMB'000
Customer A[1]	**359,790**	330,339

[1] Revenue from paper-based packaging.

(e) Segment assets and liabilities

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

7. Other Income

	2013 RMB'000	2012 RMB'000
Interest income	**4,601**	4,274
Management fee income	**223**	810
Sales of scrap materials	**648**	36
Government grants (note)	**15,858**	6,400
Commission income	**1,136**	–
Sundry income	**367**	56
Total	**22,833**	11,576

Note: Government grants received by the Group's PRC subsidiaries as financial incentives for local economic and environmental development contributions. No other conditions are attached to the financial incentives.

8. Other Gains and Losses

	2013 RMB'000	2012 RMB'000
Exchange gain, net	**2,270**	203
Loss on disposals of property, plant and equipment	**(20)**	(74)
Impairment losses recognised on trade receivables	**(1,318)**	–
Total	**932**	129

9. Finance Costs

	2013 RMB'000	2012 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**43,889**	36,934
Finance leases	**5,427**	5,603
Total borrowing costs	**49,316**	42,537
Less: Amounts capitalised (note)	**(298)**	(4,071)
	49,018	38,466

Note: Borrowing costs capitalised during the year arose on the finance leases and are calculated by applying a capitalisation rate of 10.96% (2012:10.33%) per annum to expenditure on qualifying assets.

10. Income Tax Expense

	2013 RMB'000	2012 RMB'000
Hong Kong profits tax:		
Current tax	**1,158**	–
PRC Enterprise Income Tax:		
Current tax	**5,755**	9,409
Under-provision in prior years	**4,297**	–
	11,210	9,409
Withholding Tax	**1,500**	3,200
Deferred tax (note 30):		
Current year	**(273)**	(1,859)
	12,437	10,750

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the year (2012: nil). The income of the PRC subsidiaries neither arises in, nor is derived from, Hong Kong.

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

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

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

Zheng Ye Packaging (Zhongshan) Company Limited (Zheng Ye Packaging (Zhongshan)) and Zhongshan Yong Fa Paper Industry Company Limited (Zhongshan Yong Fa Paper) obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% in 2012 based on Certain Conditions 2. In 2012, Zheng Ye Packing (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Dongsheng District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhongshan Zheng Ye Alliance Packaging Company Limited (Zheng Ye Alliance Packaging) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012.

10. Income Tax Expense (Continued)

According to document (Zhudouguoshuihan [2008] 51) issued by Dongmen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhuhai Zheng Ye Packaging Company Limited (Zheng Ye Packaging (Zhuhai)) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010, 2011 and 2012. In 2013, Zheng Ye Packaging (Zhuhai) was awarded the Advanced — technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2015.

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

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**47,265**	62,167
PRC Enterprise Income Tax at 25%	**11,816**	15,542
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(945)**	(1,280)
Tax effect of expenses not deductible for tax purpose	**1,592**	1,601
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	**(3,104)**	(8,394)
Effect of different tax rate of subsidiaries operating of other jurisdictions	**(1,060)**	–
Tax effect of tax losses not recognised	**696**	1,832
Utilisation of tax losses previously not recognised	**(1,455)**	(51)
Withholding tax on undistributed profits of PRC subsidiaries	**600**	1,500
Under-provision in respect of prior years	**4,297**	–
Tax charge for the year	**12,437**	10,750

Note: In accordance with PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. The amount represents the withholding income tax provided on the profits arisen during the year ended 31 December 2013 of PRC subsidiaries of the Company, which are available for distribution amounted to RMB6,000,000 (2012: RMB15,000,000).

11. Profit before Tax

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

	2013 RMB'000	2012 RMB'000
Depreciation of property, plant and equipment	**37,543**	28,281
Amortisation of other intangible assets	**1,438**	1,438
Amortisation of prepaid lease payments	**2,045**	1,368
Total depreciation and amortisation	**41,026**	31,087
Auditor's remuneration	**3,933**	1,846
Cost of inventories recognised as expense	**1,173,815**	983,276
Operating lease rental in respect of		
— rented plant and machineries	**6,022**	9,346
— rented premises	**14,948**	10,134
— rented vehicles	**156**	236
Staff costs		
— directors' and chief executive's emoluments	**10,576**	10,909
— salaries and other benefits costs	**127,220**	135,607
— retirement benefits scheme contribution	**5,870**	4,996
— share-based payment	**609**	1,541
Total staff costs	**144,275**	153,053
Less: Amount capitalised in construction in progress	**(1,823)**	(3,010)
	142,452	150,043

12. Directors' and Chief Executive's Emoluments

The emoluments paid or payable to each of the 9 (2012: 9) directors and the chief executive were as follows:

	Salary RMB'000	Bonus RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2013					
Hu Zheng	**2,500**	**–**	**27**	**10**	**2,537**
Hu Hanchao	**2,200**	**–**	**27**	**9**	**2,236**
Hu Hancheng	**2,200**	**–**	**27**	**8**	**2,235**
Hu Hanxiang	**360**	**–**	**20**	**–**	**380**
Wu Youjun	**85**	**–**	**8**	**–**	**93**
Zhu Hongwei	**85**	**–**	**8**	**–**	**93**
Chung Kwok Mo John	**118**	**–**	**12**	**–**	**130**
Yin Wenxin	**1,200**	**–**	**131**	**4**	**1,335**
Chen Weixin	**1,397**	**–**	**131**	**9**	**1,537**
	10,145	**–**	**391**	**40**	**10,576**

	Salary RMB'000	Bonus (note 1) RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2012					
Hu Zheng	2,500	–	56	10	2,566
Hu Hanchao	2,200	–	56	10	2,266
Hu Hancheng	2,200	–	56	8	2,264
Hu Hanxiang	360	–	45	–	405
Wu Youjun	85	–	17	–	102
Zhu Hongwei	85	–	17	–	102
Chung Kwok Mo John	122	–	34	–	156
Yin Wenxin (note 2)	1,200	–	279	12	1,491
Chen Weixin (note 2)	1,200	66	279	12	1,557
	9,952	66	839	52	10,909

Note:

1. The performance bonus was determined based on a percentage of production volume in corrugated medium paper for the year ended 31 December 2012.

2. Mr. Yin Wenxin and Mr. Chen Weixin were appointed as directors from 1 September 2012, and their emolument disclosed above included those for services rendered by them as the senior management and the director.

12. Directors' and Chief Executive's Emoluments (Continued)

Mr. Hu Hancheng is also the Chief Executive of the Company and his emolument disclosed above include those for services rendered by him as the Chief Executive.

Neither the chief executive nor any of the directors waived any emoluments during the years ended 31 December 2013 and 2012.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, all (2012: all) were directors of the Company whose emoluments are included in the disclosures in note 12 above.

14. Dividends

	2013 **RMB'000**	2012 RMB'000
Final dividend paid for the year ended 31 December 2012		
— RMB3.08 cents per share (2012: RMB2.78 cents per share paid for the year ended 31 December 2011)	**15,400**	13,900
Special dividend paid for the year ended 31 December 2011		
— RMB2.78 cents per share	**–**	13,900
	15,400	27,800

Subsequent to the end of the reporting period, a final dividend of RMB2.09 cents per share in respect of the year end of 31 December 2013 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

The final dividend of RMB3.08 cents per share in respect of the year ended 31 December 2012, was approved by shareholders in the annual general meeting on 31 May 2013 and paid to the owners of the Company in 2013.

15. Earnings per Share

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

	2013 RMB'000	2012 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**34,828**	51,417
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	500,000,000

The computation of diluted earnings per share for the years ended 31 December 2013 and 2012 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the years ended 2013 and 2012.

16. Property, Plant and Equipment

	Buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2012	105,051	2,097	7,109	10,850	298,609	85,300	509,016
Additions	965	216	3,695	4,948	8,935	166,270	185,029
Disposals	–	–	(35)	(200)	(2,308)	–	(2,543)
Transfer from construction in progress	7,953	109	5,264	–	127,268	(140,594)	–
At 31 December 2012	113,969	2,422	16,033	15,598	432,504	110,976	691,502
Additions	–	1,071	3,037	3,357	10,228	71,619	89,312
Disposals	–	–	(70)	(142)	(472)	–	(684)
Transfer from construction in progress	20,588	354	83	–	103,801	(124,826)	–
At 31 December 2013	134,557	3,847	19,083	18,813	546,061	57,769	780,130
DEPRECIATION							
At 1 January 2012	33,000	275	3,477	4,385	69,827	–	110,964
Provided for the year	4,542	738	2,115	1,782	19,104	–	28,281
Eliminated on disposals	–	–	(15)	(181)	(693)	–	(889)
At 31 December 2012	37,542	1,013	5,577	5,986	88,238	–	138,356
Provided for the year	4,785	1,693	2,980	4,078	24,007	–	37,543
Eliminated on disposals	–	–	(37)	(125)	(56)	–	(218)
At 31 December 2013	42,327	2,706	8,520	9,939	112,189	–	175,681
CARRYING VALUES							
At 31 December 2013	92,230	1,141	10,563	8,874	433,872	57,769	604,449
At 31 December 2012	76,427	1,409	10,456	9,612	344,266	110,976	553,146

16. Property, Plant and Equipment (Continued)

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

Buildings	4.50%–18%
Leasehold improvements	20%–50%
Furniture and fixtures	11.25%–18%
Motor vehicles	18%
Plant and machinery	4.50%–18%

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

Plant and machinery and construction in progress with carrying value of RMB49,355,000 and nil (2012: RMB32,120,000 and RMB50,248,000) are held under finance lease, respectively.

Plant and machinery with carrying value of RMB25,489,000 (2012: RMB nil) at 31 December 2013 are held under a sales and lease back agreement.

Details of property, plant and equipment pledged are set out in note 36.

17. Prepaid Lease Payments

	2013 **RMB'000**	2012 RMB'000
Analysed for reporting purposes as:		
Current asset	**2,178**	1,592
Non-current asset	**94,123**	66,315
	96,301	67,907
Leasehold land in the PRC		
Medium term lease	**96,301**	67,907

Details of land use rights pledged are set out in note 36.

18. Other Intangible Assets

	Development costs RMB'000
COST	
At 1 January 2012, 31 December 2012 and 31 December 2013	6,721
AMORTISATION	
At 1 January 2012	112
Charge for the year	1,438
At 31 December 2012	1,550
Charge for the year	1,438
At 31 December 2013	2,988
CARRYING VALUES	
At 31 December 2013	3,733
At 31 December 2012	5,171

Development costs are internally generated.

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

19. Deposit for Acquisition of Subsidiaries

On 31 July 2013, the Group through its wholly-owned subsidiary, had entered into two conditional equity transfer agreements (the "Agreements") with four independent third parties to acquire 58.7% equity stakes in Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited and Zhongshan Ren Hing Paper Manufacturing Company ("the Acquisition"), which are both engaged in manufacture and sale of corrugated papers and paperboards in the PRC, for an aggregate consideration of RMB141,914,000. The consideration is payable in two stages with an initial deposit of 10% or RMB14,191,400 payable upon signing of the Agreements and the remaining 90% or RMB127,722,600 upon completion. At the date of this report, the Acquisition has not completed.

20. Inventories

	2013 RMB'000	2012 RMB'000
Raw material and consumables	**103,773**	87,470
Work in progress	**8,612**	6,263
Finished goods	**14,948**	22,754
	127,333	116,487

Details of inventories pledged are set out in note 36.

21. Trade and Other Receivables

	2013 RMB'000	2012 RMB'000
Trade receivables	**415,373**	378,529
Less: allowance for doubtful debts	**(1,318)**	–
	414,055	378,529
Advances to suppliers	**4,462**	5,348
Bills receivables	**467,981**	273,988
Prepayment	**7,156**	7,734
Other receivables	**22,258**	19,589
	497,395	301,311
Total trade and other receivables	**915,912**	685,188

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

21. Trade and Other Receivables (Continued)

The following is an aged analysis of trade receivables presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

	2013 RMB'000	2012 RMB'000
0–60 days	331,495	307,456
61–90 days	47,571	37,936
91–180 days	34,989	33,086
Over 180 days	–	51
Total	414,055	378,529

The aged analysis of bills receivables based on the invoice date which approximated the respective revenue recognition dates, at the end of the reporting period are analysed as follows:

	2013 RMB'000	2012 RMB'000
0–60 days	115,407	62,635
61–90 days	104,567	36,017
91–180 days	208,170	166,521
Over 180 days	39,837	8,815
Total	467,981	273,988

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB8,967,000 (2012: RMB12,256,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable as there are significant subsequent settlements after year end. The Group does not hold any collateral over these balances.

21. Trade and Other Receivables (Continued)

Ageing of trade receivables which are past due but not impaired

	2013 RMB'000	2012 RMB'000
0–30 days	**8,234**	8,816
31–60 days	**725**	3,073
61–90 days	**–**	303
Over 90 days	**8**	64
Total	**8,967**	12,256

Movement in the allowance for doubtful debts

	2013 RMB'000	2012 RMB'000
1 January	**–**	–
Impairment losses recognised on trade receivables	**1,318**	–
31 December	**1,318**	–

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 have good repayment histories and no impairment is considered necessary.

Details of trade receivables and bills receivables pledged as set out in note 36.

During the year ended 31 December 2013, the Group discounted bills receivables with recourse in aggregated amounts of RMB258,576,000 (2012: RMB121,158,000) to banks for short term financing of which the associated borrowings amounted to RMB249,702,000 (2012: RMB118,213,000) and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year then ended as the management considers the cash flows are, in substance, the receipts from trade debtors.

22. Transfers of Financial Assets

The following were the Group's bills receivables as at 31 December 2013 that were transferred to banks or suppliers by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the related trade payables and has recognised the cash received from banks on the transfer as a secured borrowing (see note 29).

These bills receivables are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2013

	Bills receivable discounted to banks with full recourse RMB'000	**Bills receivable endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of bills receivables	**258,576**	**442,130**	**700,706**
— external customers	**64,528**	**295,506**	**360,034**
— intragroup customers	**194,048**	**146,624**	**340,672**
Carrying amount of trade payables	**–**	**(442,130)**	**(442,130)**
Carrying amount of bank loans	**(258,576)**	**–**	**(258,576)**

As at 31 December 2012

	Bills receivable discounted to banks with full recourse RMB'000	Bills receivable endorsed to suppliers with full recourse RMB '000	Total RMB '000
Carrying amount of bills receivables	277,923	168,937	446,860
— external customers	25,227	168,937	194,164
— intragroup customers	252,696	–	252,696
Carrying amount of trade payables	–	(168,937)	(168,937)
Carrying amount of bank loans	(24,697)	–	(24,697)

23. Short-Term Investment

As at 31 December 2013, the Group's short-term investment mainly represent a financial product issued by a bank in the PRC, with an expected but not guaranteed return of 4.02% per annum, depending on the market prices of its underlying financial instruments, mainly comprised of bonds and debentures. The financial product is measured at fair value at the end of the reporting period. The directors of the company consider the fair value of the financial product approximate to its principal amounts as at 31 December 2013. No fair value change is recognised during the year ended 31 December 2013. The short-term investment was redeemed in January 2014 at the principal amount together with return which approximated the expected return.

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

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB154,957,000 (2012: RMB206,338,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Deposits restricted for the use of designated construction projects and import duties to local customs as at 31 December 2012.

Bank balances carry interest at market rates within range from 0.01% to 0.35% (2012: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.35% to 3.25% (2012: 0.35% to 3.30%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

25. Trade and Other Payables

	2013 **RMB'000**	2012 RMB'000
Trade payables	**463,471**	279,167
Bills payables — secured	**50,935**	115,354
Other tax payables (note)	**43,912**	32,082
Payroll and welfare payables	**24,751**	23,800
Construction payables	**10,647**	12,786
Others	**9,395**	6,753
	603,111	469,942

Note: Included in other tax payables is RMB33,327,000 (2012: RMB30,107,000) provision of value-added tax.

25. Trade and Other Payables (Continued)

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

	2013 **RMB'000**	2012 RMB'000
0–60 days	**206,512**	128,374
61–90 days	**135,026**	97,583
91–180 days	**100,735**	48,762
Over 180 days	**21,198**	4,448
	463,471	279,167

The aged analysis of bills payables based on the invoice date at the end of the reporting period are analysed as follows:

	2013 **RMB'000**	2012 RMB'000
0–60 days	**19,478**	48,701
61–90 days	**10,913**	26,455
91–180 days	**20,544**	40,198
	50,935	115,354

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

26. Obligations under Finance Leases

	2013 **RMB'000**	2012 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**28,279**	22,322
Non-current liabilities	**32,489**	42,770
	60,768	65,092

The Group has leased certain of its plant and machinery and construction in progress under finance leases. The lease term is 20 years (2012: 20 years). Interest rates underlying all obligations under finance leases are fixed at an average 10.05% (2012: 9.18%) per annum at contract dates.

26. Obligations under Finance Leases (Continued)

The Group leased certain of its manufacturing equipment under a sales and lease back agreement in 2013. The lease term was 3 years and the ownership of the equipment would be transferred to the Group by the end of the lease term without consideration. The net proceeds of RMB24,950,000 was received and credited to obligations under finance leases in 2013. The effective interest rates underlying the obligations under finance lease are at 9.75% per annum. The carrying amount of the equipment under the sales and leaseback agreement was disclosed in note 16.

	Minimum lease payments		**Present value of minimum lease payments**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases				
Within one year	**32,547**	27,685	**28,280**	22,322
In more than one year but not more than two years	**18,927**	28,036	**17,000**	25,077
In more than two years but not more than five years	**9,948**	11,826	**8,226**	9,801
More than five years	**9,883**	10,733	**7,262**	7,892
	71,305	78,280	**60,768**	65,092
Less: future finance charges	**(10,537)**	(13,188)	**N/A**	N/A
Present value of lease obligations	**60,768**	65,092	**60,768**	65,092
Less: Amounts due for settlement within one year (shown under current liabilities)			**(28,279)**	(22,322)
Amounts due for settlement after one year			**32,489**	42,770

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

27. Amounts Due to Directors

The amounts are non-trade related, unsecured, interest free and repayable on demand.

28. Amount Due to a Related Party

The amount due to a related party represents the rental payable to a company controlled by the controlling shareholders of the company.

29. Borrowings

	2013 RMB'000	2012 RMB'000
Bank loans, secured	**837,423**	734,491
Bank loans, unsecured	**9,434**	–
Carrying amount repayable:		
Within one year	**828,277**	706,243
More than one year but not more than two years	**–**	6,720
	828,277	712,963
Carrying amount of bank loans that are repayable within one year from the end of the reporting period and contain a repayable on demand clause (shown under current liabilities)	**18,580**	21,528
	846,857	734,491
Less: Amount due within one year shown under current liabilities	**(846,857)**	(727,771)
Amounts shown under non-current liabilities	**–**	6,720

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

	2013 RMB'000	2012 RMB'000
RMB	**762,496**	680,421
USD	**13,906**	42,095
HKD	**70,455**	11,975
	846,857	734,491

Bank borrowings as at year end were secured by the pledge of assets as set out in note 36.

29. Borrowings (Continued)

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

	2013	2012
Effective interest rate：		
Fixed rate borrowings	**1.59% to 8.00% per annum**	3.97% to 6.56% per annum
Variable rate borrowings	**benchmark rate per annum**	benchmark rate per annum

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

At 31 December 2013, variable-rate borrowings amounted to RMB295,422,000 (2012: RMB487,400,000). The borrowings are arranged at the interest rate based on benchmark interest rate from the People's Bank of China ("Benchmark Rate") plus, if applicable, a premium and expose the Group to cash flow interest rate risk. At 31 December 2013, fixed rate borrowings amounted to RMB551,435,000 (2012: RMB247,091,000).

As at 31 December 2013, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounted to RMB64,528,000 (2012: RMB25,227,000), and (ii) intragroup bills receivables amounted to RMB194,048,000 (2012: RMB252,696,000), to banks with recourse.

30. Deferred Tax Liabilities

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2013 **RMB'000**	2012 RMB'000
Deferred tax assets	**(198)**	–
Deferred tax liabilities	**3,044**	4,073
	2,846	4,073

30. Deferred Tax Liabilities (Continued)

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

	Impairment on receivables RMB'000	Depreciation differences RMB'000	Undistributed profit of a subsidiary RMB'000	Total RMB'000
At 1 January 2012	–	2,732	3,200	5,932
Reversal of deferred tax liabilities upon distribution of profits	–	–	(3,200)	(3,200)
(Credit) Charge for the year	–	(159)	1,500	1,341
At 31 December 2012	**–**	**2,573**	**1,500**	**4,073**
Reversal of deferred tax liabilities upon distribution of profits	**–**	**–**	**(1,500)**	**(1,500)**
(Credit) Charge for the year	**(198)**	**(129)**	**600**	**273**
At 31 December 2013	**(198)**	**2,444**	**600**	**2,846**

At the end of the reporting period, the Group has unused tax losses of RMB7,234,000 (2012: RMB10,268,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised losses in 2013 and 2012 will be expired in 2018 and 2017, respectively.

Under the EIT law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB299,556,000 (2012: RMB231,926,000).

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

31. Share Capital

	Number of shares	Nominal value HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2012, 31 December 2012 and 31 December 2013	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2012, 31 December 2012 and 31 December 2013	500,000,000	50,000,000

	RMB'000
Presented as at 31 December 2012 and 2013	41,655

There were no changes in the Company's authorised, issued and fully paid share capital during both years.

32. Deferred Income

Government grant of RMB5,000,000 was received in the prior year towards the pre-operation of Hubei YongFa Paper and treated as deferred income at 31 December 2012. During the year ended 31 December 2013, the related costs for which the grant is intended to compensate have been incurred, hence the whole amount is recognised in profit or loss in the current year.

In 2012, the Group also received a government subsidy of RMB23,800,000 towards the cost of construction of its corrugated medium paper plant. The amount was treated as deferred income at 31 December 2013 and 2012. The amount will be transferred to income over the useful lives of the relevant assets.

33. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

34. Financial Instruments

a. Categories of financial instruments

	2013 **RMB'000**	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,180,416**	1,001,237
Financial assets at fair value through profit or loss	**10,000**	–
Financial liabilities (excluded obligations under finance leases)		
Amortised cost	**1,376,807**	1,174,449

b. Financial risk management objectives and policies

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

Save as the short-term investment disclosed in note 23, which is invested for the purpose of better utilisation of temporary idle cash, the Group does not enter into any trade financial instruments, including derivative financial instruments, for hedging or speculative purpose. There has been no significant change to the Group's exposure to these kinds of risks or the manner in which it manages and measures.

Market risk

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

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

(i) *Currency risk*

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

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

34. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) *Currency risk* (Continued)

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

	2013 RMB'000	2012 RMB'000
Assets		
USD	**9,643**	1,290
HKD	**10,230**	13,095
GBP	**10**	–
Liabilities		
USD	**14,524**	56,829
HKD	**86,744**	24,854

Sensitivity analysis

The Group mainly exposes to the currency of United States Dollars ("USD"), Hong Kong Dollars ("HKD") and Great Britain Pound ("GBP").

The following table details the Group's sensitivity to a 10% (2012: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel, and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2012: 10%) change in foreign currency rates. The sensitivity analysis includes borrowings as well as bank balances denominated in currencies. A positive number below indicates an increase in post-tax profit where the RMB strengthens 10% (2012:10%) against the relevant currency. For a 10% weakening of RMB against the relevant currency, they would be an equal and opposite impact on the profit.

	2013 RMB'000	2012 RMB'000
USD		
Profit or loss	**429**	4,721
HKD		
Profit or loss	**6,395**	999
GBP		
Profit or loss	**(1)**	–

34. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

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

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

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

Sensitivity analysis

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

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2012: 50 basis points) increase or decrease for variable bank borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates in respect of bank borrowings.

If interest rates had been 50 basis points (2012: 50 basis points) higher/lower and all other variable were held constant, the Group's: post-tax profit for the year ended 31 December 2013 would decrease/increase by RMB4,234,000 (2012: RMB1,050,000).

34. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

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

The Group has concentration of credit risk as 24% (2012: 30%) of total trade receivables represented amounts due from the Group's largest three (2012: three) trade debtors as at 31 December 2013. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

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

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

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, the Group has available unutilised banking facilities of approximately RMB464,612,000 (2012: RMB569,405,000).

34. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. 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 year of the reporting period.

Liquidity table

	Weighted average interest rate	On demand or less than 6 months	6 months to 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2013							
Non-derivative financial liabilities							
Trade and other payables	**N/A**	**526,809**	**–**	**–**	**–**	**526,809**	**526,809**
Amounts due to directors	**N/A**	**3,141**	**–**	**–**	**–**	**3,141**	**3,141**
Bank borrowings							
— fixed rate	**4.55**	**470,162**	**92,657**	**–**	**–**	**562,819**	**551,435**
— variable interest rate	**4.47**	**210,768**	**91,970**	**–**	**–**	**302,738**	**295,422**
Obligations under finance leases	**9.49**	**16,754**	**15,793**	**28,875**	**9,883**	**71,305**	**60,768**
		1,227,634	**200,420**	**28,875**	**9,883**	**1,466,812**	**1,437,575**
2012							
Non-derivative financial liabilities							
Trade and other payables	N/A	437,860	–	–	–	437,860	437,860
Amounts due to directors	N/A	2,048	–	–	–	2,048	2,048
Amounts due to related parties	N/A	50	–	–	–	50	50
Bank borrowings							
— fixed rate	5.71	398,623	94,330	–	–	492,953	487,400
— variable interest rate	5.41	109,710	143,636	7,005	–	260,351	247,091
Obligations under finance leases	9.18	13,842	13,843	39,862	10,733	78,280	65,092
		962,133	251,809	46,867	10,733	1,271,542	1,239,541

34. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 6 month" time band in the above maturity analysis. As at 31 December 2013 and 31 December 2012, the aggregate carrying amounts of these bank loans amounted to RMB18,580,000 and RMB21,528,000, respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in full 3 months (2012: 4 months) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB18,653,000 (2012: RMB21,669,000).

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

c. Fair value

The short-term investment (note 23) is measured at fair value at the end of each reporting period. The fair value of short-term investment was RMB10,000,000 as at 31 December 2013 which is determined with reference to discounted cash flow model, which is based on the expected return of the investment by reference to similar products in the market. The fair value measurement is classified under Level 2 of the fair value hierarchy.

The fair values of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

35. Major Non-cash Transactions

In 2012, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB33,903,000.

36. Pledge of Assets

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

	2013 RMB'000	2012 RMB'000
Buildings and construction in progress	**65,743**	43,555
Plant and machinery	**157,115**	101,267
Land use rights	**55,339**	56,707
Trade receivables	**109,359**	93,280
Bills receivables	**27,625**	56,012
Pledged bank deposits	**154,957**	206,338
Inventories	**92,207**	80,000
	662,345	637,159

As at 31 December 2013, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounted to RMB64,528,000 (2012: RMB24,697,000) and (ii) intragroup bills receivables amounted to RMB 194,048,000 (2012: RMB252,696,000) to banks with recourse.

37. Operating Leases

The Group as lessee

Minimum lease payments under operating leases during the year:

	2013 RMB'000	2012 RMB'000
Plant and machineries	**6,022**	9,346
Premises	**14,948**	10,134
Vehicles	**156**	236
	21,126	19,716

37. Operating Leases (Continued)

The Group as lessee (Continued)

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:

	2013 **RMB'000**	2012 RMB'000
Within one year	**13,946**	16,626
In the second to fifth year inclusive	**19,964**	34,845
After five years	**16,161**	20,118
	50,071	71,589

Operating lease payments represent rentals payable by the Group for certain of its premises, plant, and machineries and vehicles. Leases are negotiated for an average term of 3.53 years. Rentals are fixed at the date of signing of lease agreements.

38. Capital Commitments

	2013 **RMB'000**	2012 RMB'000
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**154,366**	62,216
Capital expenditure in respect of acquisition of new subsidiaries contracted for but not provided in the consolidated financial statements (note 19)	**127,723**	–
	282,089	62,216

39. Share-Based Payment Transactions

The Company has granted certain Share Options (the "Old Options") to subscribe for shares of HK$0.10 each in the capital of the Company (the "Shares") to certain eligible employees of the Company and its subsidiaries (the "Group") under the Share Option Scheme of the Company adopted on 3 June 2011. Due to the significant drop in the price of Shares resulting from the downturn of the global market, the Old Options no longer served as effective incentives for such employees as the exercise price of these Share Options were much higher than the market price of the Shares. Therefore, on 20 January 2012 the Company cancelled the outstanding Old Options previously granted to the employees to subscribe for a total of 14,100,000 Shares at an exercise price of HK$1.43 per Share with vesting period from 16 September 2011 to 31 March 2015 (both days inclusive). In consideration of the employees irrevocably and unconditionally agreed to the cancellation of the Old Options, the Company paid HK$1.00 each to the relevant holders of the Old Options. Furthermore, no compensation or any consequential loss has been payable to the relevant holders of the Old Options as a result of such cancellation and there was not any adverse finance effect on the Company as a result of the cancellation of the Old Options.

39. Share-Based Payment Transactions (Continued)

Pursuant to a resolution passed on 20 January 2012, the Company offered to grant new Share Options (the "New Options") which entitle the holders thereof to subscribe for a total of 21,350,000 Shares of the Company to the directors and employees of the Group subject to acceptance of the grantees (the "Grantees"), under the Share Option Scheme, which the New Options would expire on 30 June 2015.

Details of specific categories of options as follows:

Category of Grantee	Date of grant	Vesting period	Exercise period	Exercise Price HKD
Employees	16/9/2011	None	16/09/2011–31/03/2013	1.43
		16/09/2011–31/03/2013	01/04/2013–31/03/2014	
		16/09/2011–31/03/2014	01/04/2014–31/03/2015	
Employees and directors	20/01/2012	None	20/01/2012–30/06/2013	0.82
		20/01/2012–30/06/2013	01/07/2013–30/06/2014	
		20/01/2012–30/06/2014	01/07/2014–30/06/2015	

The table below discloses movement of the Company's share options held by the Group's directors and employees:

	Number of share options
Outstanding as at 1 January 2011 (Old Options)	14,100,000
Granted during the year (New Options)	21,350,000
Cancelled during the year (Old Options)	(14,100,000)
Outstanding as at 31 December 2012 (New Options)	21,350,000
Lapsed during the year (New Options)	(7,260,000)
Outstanding as at 31 December 2013 (New Options)	14,090,000

The New Options were granted on 20 January 2012. The fair values of the New Options determined at the date of grant using the Binomial model were HK$4,761,000.

The Old Options were granted to five senior management only whilst the New Options were granted to 14 senior management and 9 directors (formerly 16 senior management and 7 directors as on 1 September 2012, 2 senior management appointed as directors). The number of New Options granted to the grantees of the Old options varied significantly and disproportionately. Accordingly, the directors of the Company considered the Old Options as cancellation and accounted for as an acceleration of vesting. The amount that would otherwise have been recognised for service received over the remainder of the vesting period was therefore recognised in the profit or loss upon cancellation.

During the year, the Group recognised the expense of share-based payments RMB1,000,000 (2012:RMB3,368,000) of which RMB nil (2012: RMB998,000) was related to the cancellation of the Old Options.

39. Share-Based Payment Transactions (Continued)

The following assumptions were used to calculate the fair values of the New Options:

Grant date share price	HK$0.77
Exercise price	HK$0.82
Expected life	3.44years
Expected volatility	52.90% –68.40%
Dividend yield	4.40%
Risk-free interest rate	0.27%–0.46%
Exercise multiple	2.2

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the New Options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

40. Retirement Benefits Schemes

The Group operates a mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes HK$1,250 (2012:HK$1,000-HK$1,250) per person per month to the Scheme, which is matched by employees.

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

The total cost charged to income of RMB5,910,000 (2012:RMB5,048,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

41. Event after Reporting Period

Subsequent to the end of the reporting period, the Company had entered into a subscription agreement with an independent third party, Rengo Co., Ltd. (the "Rengo"), pursuant to which the Company agreed to issue, and Rengo agreed to subscribe for, the commercial note in the principal amount of JPY346,200,000 (equivalent to RMB20,000,000) (the "Commercial Note"). The net proceeds arising from the issue of the Commercial Note will be used to finance the consideration payable for the Acquisition (see note 19).

42. Related Parties Transactions

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing Company Limited (formerly known as Zhongshan City Zheng Ye (Group) Company Limited) ("Zheng Ye Leasing")	Controlled by the controlling shareholders of the Company
Zhongshan City Zhong Fa Equipment Rental Company Limited ("Zhong Fa Equipment")	Controlled by the controlling shareholders of the Company

(b) Related parties transactions

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

	2013 RMB'000	2012 RMB'000
Rental expenses of property — Zheng Ye Leasing	**4,344**	4,344
Rental expenses of vehicles — Zhong Fa Equipment	**198**	198

(c) Rental deposit of RMB450,000 (2012:RMB450,000) paid to Zheng Ye Group has been included in trade and other receivables in the consolidated statement of financial position at 31 December 2013.

(d) Related parties balances

Amounts due to directors and amount due to a related party are separately disclosed on the consolidated statement of financial position and the related notes.

(e) Compensation of key management personnel

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

	2013 RMB'000	2012 RMB'000
Salaries and other benefits	**16,403**	16,655
Share-based payment	**1,000**	2,258
Retirement benefits scheme contributions	**141**	114
	17,544	19,027

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

43. Particulars of Subsidiaries of the Company

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2013	2012	Proportion of voting power held by the Company 2013	2012	Principal activities
TYAZ International Limited ("Zheng Ye (BVI)")	British Virgin Islands ("BVI") 5 July 2010	Authorized US$50,000 US$10,000 *	Ordinary	**100%***	100%*	**100%**	100%	Investment holding
正業國際有限公司 Zheng Ye International Company Limited ("Zheng Ye International")	Hong Kong 5 February 1999	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding
誠業(香港)投資實業有限公司 Shing Yip (Hong Kong) Investment Enterprises Limited ("Shing Yip (Hong Kong)")	Hong Kong 6 May 2005	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding
正業包裝(中山)有限公司 Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)")	PRC 25 August 2003	HK$102,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging Products
中山永發紙業有限公司 Zhongshan Yong Fa Paper Industry Company Limited ("Zhongshan Yong Fa Paper")	PRC 26 November 2003	HK$81,500,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper and paperboard
中山正業聯合包裝有限公司 Zhongshan Zheng Ye Alliance Packing Company Limited ("Zheng Ye Alliance Packaging")	PRC 21 August 2006	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
珠海正業包裝有限公司 Zhuhai Zheng Ye Packing Company Limited ("Zheng Ye Packaging (Zhuhai)")	PRC 25 August 2005	HK$12,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and related packaging service
中山市中糖廢紙回收有限公司 Zhongshan City Zhong Tang Waste Paper Recycling Company Limited ("Zhong Tang Recycling")	PRC 16 February 2001	RMB500,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper
合肥市正業包裝有限公司 Hefei City Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Hefei)")	PRC 10 September 2010	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products

43. Particulars of Subsidiaries of the Company (Continued)

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2013	2012	Proportion of voting power held by the Company 2013	2012	Principal activities
鄭州正業包裝有限公司 Zhengzhou Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhengzhou)")	PRC 27 April 2011	RMB40,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
石家莊正業包裝有限公司 Shijiazhuang Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Shijiazhuang)")	PRC 23 November 2011	RMB20,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
武漢正業聯合包裝有限公司 Wuhan Zheng Ye Alliance Packaging Company Limited ("Zheng Ye Packaging (Wuhan)")	PRC 06 September 2011	2013: RMB35,000,000 2012: RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
合肥華嘉再生資源有限責任公司 Hefei Hua Jia Resource Recycling Company Limited ("Hefei Huajia")	PRC 15 November 2011	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper
湖北永發紙業有限公司 Hubei YongFa Paper Industry Company Limited ("Hubei YongFa Paper")	PRC 10 October 2012	2013: RMB50,000,000 2012: RMB30,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper and paperboard
合肥誠業包裝有限公司 Hefei Shing Yip Packaging Company Limited ("Hefei Shing Yip Packaging")	PRC 22 May 2012	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper based packaging products and printing of decorative packaging products

* Except for Zheng Ye (BVI), the issued capital of all other companies is fully paid and indirectly held by the Company.

44. Statement of Financial Position of the Company

	2013 RMB'000	2012 RMB'000
Non-current Assets		
Unlisted investment in a subsidiary	**135,884**	135,884
Amounts due from subsidiaries	**109,598**	102,261
Property, plant and equipment	**42**	62
	245,524	238,207
Current Assets		
Bank balances and cash	**1,353**	990
Other receivables	**609**	663
Dividend receivables	**24,530**	25,142
Amounts due from subsidiaries	**–**	453
	26,492	27,248
Current Liabilities		
Amounts due to directors	**286**	314
Other payables	**674**	365
Amounts due to subsidiaries	**5,206**	–
	6,166	679
Net Current Assets	**20,326**	26,569
Total Assets less Current Liabilities	**265,850**	264,776
Capital and Reserves		
Share capital	**41,655**	41,655
Reserves	**131,227**	130,153
Share premium	**92,968**	92,968
Total Equity	**265,850**	264,776

44. Statement of Financial Position of the Company (Continued)

Movement in reserves

	Merger reserves RMB'000	Share option reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	97,559	105	33,844	131,508
Profit and total comprehensive income for the year	–	–	26,164	26,164
Recognition of equity-settled share-based payments	–	281	–	281
Dividends	–	–	(27,800)	(27,800)
At 31 December 2012	97,559	386	32,208	130,153
Profit and total comprehensive income for the year	**–**	**–**	**16,424**	**16,424**
Recognition of equity-settled share-based payments	**–**	**50**	**–**	**50**
Dividends	**–**	**–**	**(15,400)**	**(15,400)**
At 31 December 2013	**97,559**	**436**	**33,232**	**131,227**

FINANCIAL SUMMARY

Consolidated Results

	For the year ended 31 December				
	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Revenue	743,351	1,053,302	1,163,803	1,242,371	**1,445,749**
Profit before taxation	72,269	97,321	58,876	62,167	**47,265**
Income tax expense	(10,005)	(16,211)	(12,436)	(10,750)	**(12,437)**
Profit for the year	62,264	81,110	46,440	51,417	**34,828**
Total comprehensive income for the year attributable to the owners of the Company	62,264	81,110	46,440	51,417	**34,828**

Consolidated Assets and Liabilities

	At 31 December				
	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	2011 RMB'000	2012 RMB'000	**2013** **RMB'000**
Total assets	889,126	1,147,221	1,452,726	1,803,516	**2,064,643**
Total liabilities	(574,631)	(857,435)	(981,939)	(1,305,744)	**(1,546,443)**
Net assets	314,495	289,786	470,787	497,772	**518,200**

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

Note 2: Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares listed on the Stock Exchange during the period from the date of the Listing (i.e. 3 June 2011) to 31 December 2013.

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