ZHENGYE
INTERNATIONAL

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
Incorporated in Bermuda with limited liability

2016 ANNUAL REPORT

Stock Code : 3363

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CORPORATE INFORMATION

Board of Directors
Executive Directors
Mr. Hu Hanchao *(Chairman)*
Mr. Hu Hancheng
(Joint Chief Executive Officer and Vice-Chairman)
Mr. Hu Zheng
(Joint Chief Executive Officer and Vice-Chairman)

Non-Executive Director
Mr. Hu Hanxiang

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

Company Secretary
Mr. Kersen Chan

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

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

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Authorized Representatives
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Mr. Kersen Chan

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As to Bermuda law
Conyers Dill & Pearman

Auditor
Deloitte Touche Tohmatsu
Certified Public Accountants

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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 2016 (the "Year").

Business Review

With the further penetration of China's supply-side structural reform, the paper-making industry has gone through market consolidation in recent years. Under the background of stable development of China's macro-economy and the enhanced efforts in environmental protection, the efforts in eliminating backward capacity have shown positive results and resulted in improvement in the supply-demand condition, with apparent signs of recovery seen in the paper-making industry.

During the Year, the government took more proactive measures to address the overcapacity problem and environmental issues in the industry. Although it has become a routine practice, the escalation and progress in the action helped to control the inventory level. As a great number of unqualified paper-making plants were ordered to cease production or reduce output, the supply of base paper in the market has correspondingly shrunk. With increasing industry concentration, the quality manufacturers were able to secure more purchase orders. During the Year, Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited*（中山聯合鴻興造紙有限公司）("**Lian He**") previously acquired by the Group commenced full operation. Benefiting from the improvement in the supply-demand condition, the new production capacity of corrugated medium paper was fully absorbed by market demand.

In addition, the sharp increase in upstream raw material (waste paper and coal) during the Year drove the market price of base paper upward. Since August 2016, the domestic paper-based products such as packing case ushered in a round of price hike, and the growth in price reached a record high in December, with especially far-reaching effect in Guangdong area. The average price of the Group's products also rose in line with the market rate. The revenue of the Group recorded substantial increase due to the increase in both sales volume and prices.

I am pleased to announce that the Group's overall turnover amounted to approximately RMB2,074,090,000 for the year ended 31 December 2016, a year-on-year increase of 14.73% (2015: RMB1,807,765,000). The Group's gross profit was RMB404,548,000 and gross profit margin was about 19.50%. Profit and total comprehensive income for the year was RMB108,998,000, and total comprehensive income for the period attributable to owners of the Company was RMB91,649,000, representing a significant increase of 122.80% over last year. Basic earnings per share were approximately RMB18 cents.

* *For identification purpose only*

CHAIRMAN'S STATEMENT

Outlook and Acknowledgements

The paper-making industry has gone through many challenges over the past decade. In recent years, growth in the light industry such as the paper industry was on a downward track as China's economy entered into the new normal status. Affected by the weak macro consumption sentiment, demand from the downstream sectors decreased, and the oversupply problem has hampered the development of the industry. However, the implementation and further penetration of policies such as destocking and de-capacity have successfully improved the supply structure, gradually striking a balance between production and consumption. Through technology introduction and transformation, the paper-making industry has achieved significant improvement in scale, technology, environmental protection and other areas, demonstrating the industry's pursuit for change and progress. Therefore, the Group will also keep abreast with market trend, carry out transformation and upgrade in a timely manner to seize development opportunities, and seek for new breakthrough while adapting to changes in the market, laying a solid foundation for the long-term development of the Group.

In the coming year, the Group will adhere to the key strategy of "optimizing internal structure and improving product quality". Over the years, Zhengye International made strenuous efforts to expand market shares, optimize capacity allocation and develop a diversified customer base. This year, the Group will focus on optimizing the existing resources, so as to consolidate the business foundation. Regarding production, we will improve papermaking technology and process, focus on product quality and production efficiency, and further strengthen product development ability to cater to the diversified market demands. Regarding management, we will prudently supervise plant operation, enhance cost control of the Company, and ensure an appropriate allocation of resources, so as to improve the Group's management efficiency and profitability. Regarding capital operation, the Group will implement a resilient risk management mechanism, and strengthen solvency to maintain a healthy financial position and ensure sound capital operation.

In terms of business expansion, while continuously expanding customer group in food, seasoning and electronics industries, the Group will focus on the increasingly mature e-commerce market, fully take advantage of the opportunities brought about by the Internet era, and explore feasible business mode to provide more and flexible product options for e-commerce platform and online shoppers. In addition, with increasing emphasis on environmental protection elements such as "recycling, low-carbon and green economy" in the paper-making industry, the Group will continue to closely follow the environmental requirements in the market, and maintain its position as a green paper-making enterprise through innovative technology, with an aim to achieve environmental protection and resource conservation.

As a pioneer in the industry, Zhengye International is determined to maintain its core competiveness with self-improvement as its longs-term mission. In the face of a changing market environment, the Group will continue to maintain its internal strength, and consolidate the business foundation by optimizing and integrating internal structure and resources. In addition, the Group will also analyze the trends of the industry, seize every new opportunity in the market, and proactively seek for new growth opportunities to further spur business development of the Group.

On behalf of the Board, I would like to extend my heartfelt gratitude to all customers, business partners, suppliers, banks and all shareholders for their support and great kindness to the Group.

Hu Hanchao
Chairman

Hong Kong, 24 March 2017

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

According to the 2016 GDP data published by the National Bureau of Statistics of China in January, the GDP growth rate of China stood at 6.7%, hitting a record low for the last 26 years, but still within the expected range set by the government. The PRC economy maintained growth within a reasonable range, with a focus on the development quality of each industry. The paper-making industry also benefitted from the further penetration of supply-side structural reform. During the Year, in order to address the overcapacity problem and environmental issues of the paper-making industry, the PRC government took proactive measures to eliminate backward production capacity, with an aim to improve the supply-demand condition of the paper-making industry. The government stepped up effort to squeeze backward capacity out of the market by eliminating manufacturers who provide mixed product quality and fail to meet environmental protection requirements and supporting quality brands, so as to promote development of the paper-making industry. As a regional leading corrugated medium paper and paper-based packaging service provider, Zhengye International has competitive advantage in various aspects such as economy of scale, energy conservation and environmental protection as well as innovative technology. Therefore, the Group maintained steady development amidst market consolidation.

With improvement in the supply-demand structure of the industry, Zhengye International benefitted from our previous efforts in optimizing capacity allocation with positive results. Zhongshan Rengo Huang Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) (“**Lian He**”) previously acquired by the Group has completed the technological upgrade project during the Year and commenced full operation, which greatly improved the production capacity of corrugated medium paper and consolidated the production base of upstream sector, contributing to the revenue of the Group. As at 31 December 2016, the Group recorded a turnover of RMB2,074,090,000, up 14.73% over last year, among which the sales of paper-based packaging products and corrugated medium paper products accounted for 34.87% and 65.13% of total sales respectively. With the new production capacity of corrugated medium paper and benefiting from the decrease in raw material (coal and waste paper) price in the first half of the Year, a gross profit of the Group during the Year amounted to RMB404,548,000 was recorded, up 17.69% year-on-year, with a gross profit margin stabilizing at 19.50%. In addition, the Group continued to consolidate its internal resources to improve production efficiency, and maintained stable profitability by strengthening internal cost management during the Year. Profit and total comprehensive income attributable to owners of the Company for the Year was RMB91,649,000, representing a significant increase of 122.80% over last year. The profit and total comprehensive income for the Year of the Group was RMB108,998,000, a year-on-year growth of 155.31%. Basic earnings per share amounted to approximately RMB18 cents.

Sales of the Group are mainly conducted in Renminbi (“**RMB**”). To address the effect of ongoing depreciation of RMB on our foreign currency denominated borrowings, the Group had arranged the RMB borrowings in March and May 2016 for the purposes of repayment the principal amounted to JPY2,917,000,000 for the next six years, so as to minimize the currency risks in the future.

Breakdown of the Group’s principal activities

	2016			2015		
	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	**533,835**	**25.74**		595,764	32.95	
Honeycomb paper-based products	**189,330**	**9.13**		213,987	11.84	
Subtotal	**723,165**	**34.87**	**15.45**	809,751	44.79	19.20
Corrugated medium paper						
AA grade	**1,329,041**	**64.08**		810,242	44.82	
C grade	**21,884**	**1.05**		187,772	10.39	
Subtotal	**1,350,925**	**65.13**	**21.68**	998,014	55.21	17.47
TOTAL	**2,074,090**	**100.00**	**19.50**	1,807,765	100.00	19.01

MANAGEMENT DISCUSSION AND ANALYSIS

Paper-based packaging products

The paper-based packaging products offered by the Group were mainly corrugated cartons and honeycomb paper-based products. As quality corrugated packaging paper is light, strong and recyclable, it is widely used by manufacturers of small home appliances and air conditioners, while the major customers of the Group are the leading domestic manufacturers of small home appliances and air conditioners. During the Year, competition in the white goods industry remained intensified. The implementation of home purchase curb by the government and tightening in monetary policy, coupled with the cooling down in the real estate market, has led to decrease in demands for white goods. In addition, the strategic disposal of all equity interest in Hefei City Zheng Ye Packaging Company Limited* (合肥市正業包裝有限公司) ("**Hefei Zheng Ye**") by the Group on 21 June 2016 led to decrease in overall production capacity, resulting in decrease in the revenue from the paper-based packaging products for the Year. During the Year, the Group recorded an overall turnover of RMB723,165,000 for paper-based packaging products, a decrease of 10.69% (2015: RMB809,751,000), among which corrugated cartons and honeycomb paper-based products accounted for 73.82% and 26.18% respectively (2015: 73.57% and 26.43%).

Turnover by customer at paper-based packaging products

	2016		2015	
	RMB'000	**Percentage of total revenue (%)**	RMB'000	Percentage of total revenue (%)
Household air conditioners and small home appliances manufacturers	**529,480**	**73.22**	676,269	83.52
Food and seasoning manufacturer	**127,406**	**17.62**	100,822	12.45
Other	**66,279**	**9.16**	32,660	4.03
TOTAL	**723,165**	**100.00**	809,751	100.00

In order not to be hit vulnerably by the volatility in a single market, the Group was proactively expanding its sales network and further expanding the customer group to the seasoning and electronics industries. Meanwhile, the Group also maintained good cooperation relationship with large household appliance manufacturers and other major customers, and closely followed the transformation of our customers to adjust the specifications and range of our products in time, exerting our advantage as a one-stop service provider.

Corrugated medium paper

Since 2016, the government reinforced implementation of environmental protection policy, especially imposing stringent approval procedures for new capacity in the coastal areas with severe pollution problem, which led to significant improvement in base paper supply. Despite the rising price of raw material (including waste paper and coal) during the second half of the year, the sales price of corrugated medium paper recorded the largest increase for the last six years in the last quarter of 2016 as improvement in supply condition had boosted the bargaining power of industry players. As corrugated medium paper is a key upstream product for the corrugated packaging products, the additional production capacity contributed by Lian He during the Year helped to meet market demands. With increase in both production capacity and product price, turnover from the corrugated medium paper business for 2016 was RMB1,350,925,000, representing a year-on-year increase of 35.36% (turnover for 2015: RMB998,014,000).

Capacity and capacity utilisation rate

The Group provides one-stop service solution to its customers covering from recycling of waste paper, manufacturing of high-strength corrugated medium paper, production of corrugated cartons and honeycomb paper-based products to packaging services, making full use of our vertically integrated industrial chain.

Paper-based packaging products

For the year ended 31 December 2016, the Group had a total of 14 production lines (including 9 corrugated cartons production lines and 5 honeycomb paper-based products production lines) which are mainly located in six cities including Zhongshan, Zhuhai, Wuhan, Shijiazhuang, Zhengzhou and Hefei. The Group's total designed annual capacity for corrugated cartons reached 836,325,000 square meters, whereas that for honeycomb paper-based products was 25,581,000 square meters. The Group made persistent efforts to improve production deployment, and carried out upgrading and transformation on certain production facilities during the Year, effectively improving the production volume and capacity utilisation rate, which in turn enhanced the overall operational efficiency and cost advantage of the Group.

		2016			2015	
	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**	**28,523**	**73.36**	38,880	20,802	53.50
No. 3 corrugated cartons production line	**38,880**	**10,666**	**27.43**	38,880	18,743	47.51
No. 7 honeycomb paper-based product production line	**4,312**	**3,996**	**92.67**	4,312	4,061	94.18
No. 8 honeycomb paper-based product production line	**3,525**	**2,894**	**82.10**	3,525	3,305	93.76
New No. 2 corrugated cartons production line	**184,140**	**51,675**	**28.06**	184,140	68,269	37.07
Zhuhai						
No.5 corrugated cartons production line	**72,900**	**64,958**	**89.11**	72,900	54,587	74.88
No.6 corrugated cartons production line	**45,360**	**15,414**	**33.98**	45,360	12,953	28.56
Shijiazhuang						
No. 9 corrugated cartons production line	**90,396**	**17,285**	**19.12**	90,396	14,838	16.41
No.10 honeycomb paper-based product production line	**6,696**	**2,607**	**38.93**	6,696	3,031	45.27
Zhengzhou						
No.11 corrugated cartons production line	**150,660**	**5,705**	**3.78**	150,660	23,165	15.38
No.12 honeycomb paper-based product production line	**4,352**	**2,511**	**57.50**	4,352	4,144	95.22
Wuhan						
No.13 corrugated cartons production line	**110,484**	**0**	**0.00**	110,484	6,160	5.58
No.14 honeycomb paper-based product production line	**6,696**	**5,805**	**86.69**	6,696	6,386	95.37
Hefei						
No.15 corrugated cartons production line	**104,625**	**0**	**0.00**	104,625	348	0.33
TOTAL corrugated cartons	**836,325**	**194,226**	**23.22**	836,325	219,595	26.26
honeycomb paper-based product	**25,581**	**17,813**	**69.63**	25,581	20,927	81.81

MANAGEMENT DISCUSSION AND ANALYSIS

Corrugated medium paper

The main production base of corrugated medium paper is located in Zhongshan. For the year ended 31 December 2016, the Group had 7 corrugated medium paper production lines with a total designed annual capacity of 800,000 tons, making the Group one of the leading corrugated paper producers in Guangdong region. The Group always attached emphasis on improvement of production efficiency and optimization of plant management. During the Year, the Group adopted the performance indicator approach to management the corrugated medium paper production lines, successfully improving production volume and capacity utilisation rate.

	2016			2015		
	Planned operation (hours)	**Actual operation (hours)**	**Effective rate (%)**	Planned operation (hours)	Actual operation (hours)	Effective rate (%)
Zhongshan Yong Fa						
No. 1 paper machine	**8,076**	**7,434**	**92.05**	8,292	7,493	90.36
No. 2 paper machine	**8,102**	**7,372**	**90.99**	8,121	7,531	92.73
No. 3 paper machine	**8,078**	**7,435**	**92.04**	8,220	7,495	91.18
No. 5 paper machine	**8,298**	**7,554**	**91.03**	7,938	7,290	91.84
Hung Xing						
No. 1 paper machine	**8,771**	**7,950**	**90.64**	8,585	6,561	76.42
No. 2 paper machine	**8,760**	**7,786**	**88.88**	8,541	6,890	80.67
No. 3 paper machine	**8,765**	**7,475**	**85.28**	8,535	7,963	93.30

Disposal of all equity interest in Hefei City Zheng Ye Packaging Company Limited

The Group announced on 21 June 2016 that it had entered into an agreement to dispose of 100% of the equity interest (equivalent to all issued share capital) in Hefei City Zheng Ye Packaging Company Limited* ("**Hefei Zheng Ye**") (合肥市正業包裝有限公司) for a cash consideration of RMB34,000,000, and the transaction was completed in September 2016. Hefei Zheng Ye is mainly involved in manufacturing and selling paper-based packaging products, as well as printing packaging and decoration materials. The main assets of Hefei Zheng Ye are land with an area of 66,700 sq.m. and plant under construction with an area of 29,376 sq.m. in Feixi County of Hefei City. The disposal was in the interest of the Group as a whole. The disposal contributed a gain of approximately RMB1,930,000 to the Group in the second half of the year. The Board considered that the disposal can enhance the cash position and the operating capital of the Company, allowing the Group brought positive financial and operational impacts, which is conducive to the future development of the Company. The net cash flow from the disposal were approximately RMB32,613,000, which used to repay bank borrowings.

Agreement for Termination of Hubei Project Investment

On 30 June 2016, the Group entered into an agreement for termination of Hubei project investment, which entered into force on the same date. The Group will not build the new paper-making plant and facilities in Songzi City, Hubei Province. On 30 November 2012, Hubei Yong Fa Paper Industry Company Limited* ("**Hubei Yong Fa Paper**") (湖北永發紙業有限公司), an indirectly wholly-owned subsidiary of the Group, successfully won the bid through auction of the land use rights of a plot of construction land with a total site area of 200,000 sq.m. located at Songzi City Industrial Park at a total consideration of RMB28,800,000. On 26 December 2012, the Songzi City Municipal Government* (the "**Municipal Government**") (湖北省松滋市政府) and the Songzi City Lingang Industrial Park* (the "**Industrial Park**") (松滋市臨港工業園) respectively granted RMB23,800,000 and RMB5,000,000, or an amount of RMB28,800,000 in total, to Hubei Yong Fa Paper as financial incentives to encourage the Group to develop the paper-making project in Songzi City. The Group originally intended to construct a paper-making plant with an annual production capacity of 600,000 tonnes. However, given the fact that the Group completed the acquisition of Lian He in Zhongshan, Guangdong Province in April 2014, the Directors consider that it will be uneconomical for the Group to continue to construct a new plant, because it will involve additional investment and operational costs, and therefore terminate the construction of the new plant. This will enable the Group to reduce its additional capital expenditures and operational expenses arising from the construction of the plant, which is in the interest of the Group. On termination, the related assets and liabilities are being charged or credited to profit or loss and the resulting loss on termination of investment project of RMB8,049,000 is included in the other gains and losses. The Directors consider that the termination of the agreement will not have any material adverse impact on the working capital of the Group.

Prospects

It is expected that the elimination of backward capacity since 2016 and the implementation of stringent environmental protection policy and capacity control will continue in 2017. With the continuous optimization of industry structure, the Group will also keep abreast with the development pace of the industry by adjusting its internal structure and resource allocation, in an effort to maintain steady increase in market share. During the Year, the Group adopted the performance indicator approach to manage the corrugated medium paper production lines, successfully improving the overall production efficiency of these production lines. In view of this, the Group will continue to apply the performance indicator approach to optimize the corrugated cartons and honeycomb paper-based product production lines, so as to enhance its internal management and improve its operating efficiency and performance. Meanwhile, the Group will implement strict control over cost expenditure and monitor the financial position of each business unit. In order to avoid impact of fluctuations in the exchange rate against RMB, the Group will adjust raw material procurement strategy in a timely manner and adopt flexible approaches towards foreign currency loans, so as to reduce exchange loss. The Group will continue to invest in research and development activities and improve production technology, with an aim to constantly improve the core competitiveness of the Group. While efforts will be made to improve production efficiency, the Group will focus on improving product quality and developing new products, so as to promote long term development of the overall business.

On the other hand, as the PRC government continues to implement environmental protection policy, the Group will use the most advanced environmental protection production technology and equipment, strictly monitor all procedures of production to fulfill the environmental standards, and abide by the most updated energy conservation and emission reduction requirements of the government, so as to maintain our status as industry pioneer in environmental protection.

The paper-making industry is closely related to national economic development, and the Group believes the market still has room for development. In order to seize market opportunities, the Group will pay close attention to industry changes and trends for integration, and proactively adjust and optimize product mix and expand customer base, so as to promote growth of our business. The sales team of the Group will develop appropriate marketing strategy, get a comprehensive update on the latest development of the paper-making industry, and proactively seek to build a diversified customer base.

In addition, with the rapid development of the modern e-commerce business, e-commerce platform provides new development opportunities for the paper-making industry. In order to seize the huge market demand of e-commerce business for the paper-based packaging products, the Group will proactively look for opportunities to attract e-commerce customers, so as to explore new business opportunities and expand our market shares.

The management is optimistic about the future development prospect of the Group. The Group will continue to implement strict cost control and enhance good capital operation, so as to maintain our market competitiveness in the paper-making and packaging industries. Our experienced and competent management team will continue to manage the Group's business, and efforts will be made to further improve the scale and profitability of the Group, with an aim to achieve maximum profit and return for the Company and the shareholders.

Cost of sales

The Group's cost of sales increased from RMB1,464,027,000 in 2015 to RMB1,669,542,000, representing a growth of 14.04%.

Paper-based packaging products

The cost of sales of paper-based packaging products were RMB611,452,000 (2015: RMB654,278,000), representing a decrease of 6.55%.

Corrugated medium paper

The cost of sales of corrugated medium paper were RMB1,058,090,000 (2015: RMB809,749,000), representing a growth of 30.67%, this is mainly due to the fully released the productions of Lian He paper mill during the year.

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB404,548,000, representing an increase of 17.69% as compared with RMB343,738,000 in Year 2015. The average gross profit margin rose from 19.01% in Year 2015 to 19.50% for the Year.

Paper-based packaging products

The gross profit from paper-based packaging products for 2016 was RMB111,713,000 (2015: RMB155,473,000), representing a decrease of 28.15%. The overall gross profit margin for 2016 was 15.45% (2015: 19.20%), down by 3.75 percentage points.

Corrugated medium paper

The gross profit from corrugated medium paper for 2016 was RMB292,835,000 (2015: RMB188,265,000), representing a growth of 55.54%. The overall gross profit margin for 2016 was 21.68% (2015: 17.47%), up by 4.21 percentage points.

Other income, other gains and losses

Other income, other gains and losses mainly included income from interest RMB3,030,000 (2015: RMB3,836,000), government subsidies RMB30,128,000 (2015: RMB18,270,000) and net amount of exchange losses RMB17,635,000 (2015: RMB14,716,000).

Distribution and selling expenses

The distribution and selling expenses of the Group increased by approximately 7.08% from RMB64,823,000 for the Year 2015 to RMB69,410,000 for the Year. The distribution and selling expenses during the Year mainly included during the Year are salaries of salesmen, transportation costs and business advertisement and promotion.

Administrative expenses

The Group's administrative expenses decreased by approximately 2.91% from RMB120,062,000 for the Year 2015 to RMB116,574,000 for the Year. The administrative and other expenses during the Year mainly included during the Year are salaries of management, staff welfare, rent and depreciation.

Finance costs

Finance costs of the Group slipped by approximately 29.44% from RMB62,302,000 for the Year 2015 to RMB43,963,000 for the Year.

Interest rates of bank borrowings were at variable rates ranging from 3.63% to 6.69% for the Year, compared with 2.40% to 6.69% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate, obligations under finance leases in fixed rate and other borrowings in variable rate during the Year were 5.78%, 4.83%, 6.12% and 10.91% respectively (2015: 4.81%, 4.57%, 6.12% and 10.62% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB845,774,000 as at 31 December 2016, compared to RMB893,451,000 as at 31 December 2015.

Research and development expenses

Research and development expenses of the Group increased by 7.27% from RMB49,153,000 in the Year 2015 to RMB52,725,000 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.

Income tax expense

During the Year, the Group's income tax expense was RMB15,911,000 (2015: RMB14,025,000), with effective tax rate of 12.74% (2015: 24.73%). The lower effective tax rate for the year was mainly due to the effect of utilisation of tax losses previously not recognized. For details of the reconciliation of tax charge for the year to the profit before tax, please refer to income tax expense section in the notes to the consolidated financial statements of the annual report.

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB108,998,000, the total comprehensive income for the Year attributable to owners of the Company was RMB91,649,000, represented a significant increase of 122.80% compared with RMB41,136,000 for the Year 2015.

Dividends

The Board recommends, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on Friday, 23 June 2017, the payment of a final dividend of RMB5.50 cents per Share for the year ended 31 December 2016 (2015: nil) to those shareholders whose names appear on the register of members of the Company on Thursday, 29 June 2017. 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 of the Company together with the poll results of the AGM on Friday, 23 June 2017. The final dividend is expected to be paid on or around Tuesday, 18 July 2017.

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, 20 June 2017 to Friday, 23 June 2017 (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, 19 June 2017.

For determining the entitlement of the recommended final dividend, the register of members of the Company will be closed from Friday, 30 June 2017 to Monday, 3 July 2017 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify 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, 29 June 2017.

Liquidity, Financial Resources and Capital Structure

Cash flow

As at 31 December 2016, the Group had a net cash inflow of RMB100,076,000.

The net amount of the cash inflow arising from investing activities for the disposal of a subsidiary in amount of RMB32,613,000, and the proceeds from redemption of short-term investments in amount of RMB10,348,000.

Inventories

The inventories decreased 6.56% to approximately RMB130,663,000 as at 31 December 2016, compared to approximately RMB139,843,000 as at 31 December 2015. During the Year, the inventory turnover day was speed up to 30 days (2015: 36 days) which was at a normal level.

Trade receivables

As at 31 December 2016, the trade receivables amounted to RMB487,313,000 (as at 31 December 2015: RMB486,758,000). 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 approximately to 86 days (2015: 100 days).

Bills receivables

As at 31 December 2016, the bills receivables amounted to RMB384,355,000 (31 December 2015: RMB424,651,000).

Trade payables

As at 31 December 2016, the trade payables amounted to RMB399,690,000 (as at 31 December 2015: RMB445,116,000). 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 shortened to 92 days (2015: 120 days).

Borrowings

As at 31 December 2016, the Group's bank borrowings and other borrowings balance amounted to RMB837,606,000 (as at 31 December 2015: RMB884,953,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

As at 31 December 2016, the gross gearing ratio was approximately 34.53% (as at 31 December 2015: 35.41%), which was calculated on the basis of the total amount of bank borrowings and other borrowings as a percentage of the total assets. The net gearing ratio was 81.53%, which was calculated on the basis of the amount of bank borrowings and other borrowings less pledged bank deposits and cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2015: 115.45%).

Pledge of assets

As at 31 December 2016, the Group pledged certain assets with carrying value of RMB737,006,000 as collateral for the Group's borrowing (as at 31 December 2015: RMB861,308,000).

Capital commitments

As at 31 December 2016, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB48,275,000 (as at 31 December 2015: RMB32,267,000). All the capital commitments were related to purchasing of properties, plants and equipment.

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2016.

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 currencies of United States, Hong Kong and United Kingdom. The Group has reduced the transactions using in such currencies during the Year due to the fluctuations in currencies from RMB to United States Dollars and other foreign currencies. The Group acquired Lian He and paper manufacturing factories in 2014. Before the acquisition, Lian He borrowed a ten years borrowings with amount of JPY3,500,000,000 from Rengo Company Limited* (レンゴー株式會社), one of shareholder of Lian He. In order to minimize the currency risk in JPY, the Group had arranged RMB borrowings in March and May 2016 for the purposes of repayment the principal amounted to JPY2,917,000,000 for the next five years. 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 3,414 employees as at 31 December 2016 (as at 31 December 2015: 3,862 employees). The staff costs amounted to RMB244,649,000 for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB243,310,000).

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.

* *For identification purpose only*

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hu Hanchao (胡漢朝), aged 59, was appointed as Chairman of the Company since April 2016. He 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 corrugated medium paper division. He has been involved in corporate management for more than 28 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).

Mr. Hu Hancheng (胡漢程), aged 57, has been appointed an executive Director since 4 March 2011. He is also the Joint Chief Executive Officers 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, between December 2007 and January 2017. Mr. Hu Hancheng is in charge of the management and operation of the packaging business division of the Group. 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 Zheng (胡正), aged 54, he is the Joint Chief Executive Officers, Vice Chairman and executive Director and one of the founders. Furthermore, Mr. Hu Zheng is the Chairman of the nomination committee and members of the remuneration committee and risk management 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).

Non-Executive Directors

Mr. Hu Hanxiang (胡漢祥), aged 62, 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).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Prof. Zhu Hongwei (朱宏偉), aged 53, 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.

Mr. Wu Youjun (吳友俊), aged 49, joined the Company in 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 48, joined the Company on 4 March 2011 as an independent non-executive Director. He is also the Chairman of audit committee, remuneration committee and risk management 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 listed company on the Stock Exchange; stock code: 285) since June 2013. Mr. Chung was an auditor in an international accounting firm from 1992 to 1999. From 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of 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 CPA Australia in 1995 and that of Hong Kong Institute of Certified Public Accountants in 1996.

Senior Management

Mr. Hong Guanghua (洪光華), aged 53, joined our Group in 2003. Mr. Hong is the general manager of corrugated medium paper division assisting with the operation and management of the Group. Before that, Mr. Hong was an executive Director of the Company from January to December 2015. Mr. Hong has 30 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 58, joined our Group in 2003. Mr. Fu is the sales director of the corrugated medium paper division of the Group. Before that, Mr. Fu was deputy general manager of Zhongshan Yong Fa Paper and is in charge of the sales operation. Mr. Fu has over 23 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 53, joined our Group in 2003. Mr. Du is the deputy general manager and factory director in electricity of corrugated medium paper division of the Group which is in charge of the operation and management in electricity. Mr. Du has 30 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 executive general manager of Hubei Yong Fa Paper, 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 54, joined our Group in 2003. Mr. Zhang is the general manager of Zhuhai base in packaging business division of the Group responsible for the overall management of the base. Before that, Mr. Zhang was an executive Director of the Company from January to December 2015. Mr. Zhang has been involved in the papermaking and packaging industry for over 28 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 54, joined our Group in 2003. Mr. Li is the general manager of Zhongshan base in packaging business division of the Group to responsible for the overall management of the base. 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. Yin Wenxin (尹文欣), aged 60, joined our Group in 2003. Mr. Yin is the general manager of the packaging business division. Before that, Mr. Yin was an executive Director of the Company from September 2012 to December 2014. Also, Mr. Yin was the chief engineer and executive president of our Group's packaging business division responsible for the productions and 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 mechanic.

Mr. Huang Zhichang (黃志昌), aged 54, joined our Group in 2004. Mr. Huang is the technician director in corrugated medium paper division of the Group and is in charge of project development. Mr. Huang has over 28 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 general manager of the Group, 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).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Chen Wei (陳威), aged 41, 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 13 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

Mr. Kersen Chan (陳鉅升), aged 38, was appointed as the Company Secretary and the Authorized Representative of the Company in March 2015. Mr. Chan joined the Group as Finance Manager in December 2011. He has over 10 years of professional experience in accounting, auditing and handling the corporate secretarial duties for listed companies in Hong Kong. He has worked for various international accounting firms and listed companies in Hong Kong. Mr. Chan holds a bachelor’s degree in accounting. He is a member of CPA Australia.

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 2016 (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 2016.

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. As at 31 December 2016, the Board comprised seven members, consisting of three Executive Directors namely, Mr. Hu Hanchao (Chairman), Mr. Hu Hancheng (Joint Chief Executive Officer and Vice-Chairman) and Mr. Hu Zheng (Joint Chief Executive Officer and Vice-Chairman), 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. 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 14 to 15.

The Company has received from each Independent Non-executive Director an annual confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the 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 2016 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 four Board committees (the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management 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**	**Risk Management Committee**	**AGM**
Executive Directors						
Mr. Hu Hanchao	4/4	N/A	1/1	1/1	1/1	1/1
Mr. Hu Hancheng	4/4	N/A	N/A	N/A	N/A	1/1
Mr. Hu Zheng	4/4	N/A	N/A	N/A	N/A	1/1
Non-Executive Director						
Mr. Hu Hanxiang	3/4	N/A	N/A	N/A	N/A	0/1
Independent Non-Executive Directors						
Mr. Chung Kwok Mo John	4/4	2/2	1/1	1/1	1/1	1/1
Mr. Wu Youjun	3/4	1/2	1/1	1/1	1/1	1/1
Prof. Zhu Hongwei	4/4	2/2	1/1	1/1	1/1	1/1

Mr. Hu Hanxiang did not attend the 2016 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.

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 will give 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 will also take into account its own business model and specific needs from time to time to determine the optimum composition of the Board. The Company will review the Policy on a regular basis to ensure its continued effectiveness.

Board Committees

The Board has established four committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee, throughout the year ended 31 December 2016. 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 Officers ("CEOs")

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 Hanchao was the Chairman, Mr. Hu Hancheng and Mr. Hu Zheng were joint CEOs of the Company for purpose of maintaining and a more balanced basis for judgments and decisions. The Board viewed that, under the leadership of Mr. Hu Hanchao 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 and Mr. Hu Zheng as joint CEOs of the Company, were 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.

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 1 January 2016 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 2016.

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 function 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;

(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 2016 included developing and reviewing the Company's policies on corporate governance and making relevant recommendations.

Continuous Professional Development

Under A.6.1 and A.6.5 of the Code in relation to Directors' training. All Directors namely Mr. Hu Hanchao, Mr. Hu Hancheng, Mr. Hu Zheng, Mr. Hu Hanxiang, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei have completed continuous professional development training by attending the in-house training of "the Development and Opportunity of Financial Reform in China" organized by a consultancy training company engaged by the Company. The attended 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 19 of this annual report. The work performed by the Remuneration Committee during the year ended 31 December 2016 included the following matters:

- make recommendations to the Board of the remuneration of Executive and Non-executive Directors for the years ended 31 December 2017. 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.

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 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 meeting.

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.

Three Executive Directors, namely, Mr. Hu Hanchao, Mr. Hu Hancheng and Mr. Hu Zheng had entered into a service contract with the Company for a period of three years commencing from 1 January 2015, unless terminated in accordance with the terms of the service contract. The Non-executive Director and each of the Independent Non-executive Directors had signed a letter of appointment with the Company for a term of one year commencing from 1 January 2016 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 2016, there was one meeting held by the Nomination Committee. Details of attendance are shown in the table on page 19.

The work of the Nomination Committee during the year ended 31 December 2016 included the following matters:

- to make recommendation to the Board on renew services contracts of non-executive Director and independent non-executive Directors; and
- to assess the independence of the Independent Non-executive Directors.

Auditors' Remuneration

For the year ended 31 December 2016, the fees charged by the Company's auditors in respect of audit amounted to approximately RMB1,743,000.

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 19. The work of the Audit Committee during the year ended 31 December 2016 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;

- 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 pages 34 to 37.

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.

Risk Management Committee

The risk management committee is newly set up on 18 December 2015 and currently comprises four Directors, including the 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. Chung Kwok Mo John.

The risk management committee is established to, without limitation, assist the Board to evaluate and determine the nature and extent of the risks the Board is willing to take in achieving the Group's strategic objectives, ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems, and assist the Board to oversee the design, implementation and monitoring of the risk management system carried out by the management on an ongoing basis.

Subsequent to the end of 2016 and up to the date of this report, the risk management committee held one meeting, details of attendance is shown in the table on page 19. The meeting was to discuss areas including but not limited to the key risks faced by the Group, risk management policy and practice, and relevant plans in 2017.

Company Secretary

Mr. Kersen Chan has been engaged by the Company as the company secretary since March 2015, her biographical details are set out in the section headed "Profiles of Directors and Senior Management" in this annual report. Mr. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the year.

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, 23 June 2017 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 2016.

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 40 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 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 38 to 99 of this annual report.

The Directors now recommend the payment of a final dividend of RMB5.50 cents per share to the shareholders on the register of members on 29 June 2017, amounting to approximately RMB27,500,000 and the retention of the of the profit for the year approximately RMB64,149,000.

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 23 June 2017 (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 29 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2016, calculated in accordance with the provision of the Bermuda Companies Act 1981, amounted to RMB63,150,000.

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 100 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 2016.

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 Hanchao *(Chairman)*
Mr. HU Hancheng *(Joint Chief Executive Officers and Vice-Chairman)*
Mr. HU Zheng *(Joint Chief Executive Officers and Vice-Chairman)*

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 Hancheng, Mr. Hu Hanxiang 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 14 to 17 of this annual report.

Directors' Service Contracts

The executive Directors namely, Mr. Hu Hanchao, Mr. Hu Hancheng and Mr. Hu Zheng have renewed their service contracts with the Company for a term of three years commencing from 1 January 2015. 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 1 January 2016 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).

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 2016 was set out below:

Remuneration band (RMB)	**Number of individuals**
0–500,000	26
500,001–1,000,000	4
1,000,001 or above	3

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 39 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 2016, the interests and short positions of the directors and chief executives 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 2016.

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 2016, so far as are known to any Director or chief executive of the Company, the persons (other than the Directors and the chief executives 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 2016.

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.

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, 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.

Connected Transactions

Certain related party transactions as disclosed in note 39 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 announcement dated 18 December 2014.

One-off Connected Transactions

In January 2016, Shanghai Rengo Packaging Decoration Company Limited* (上海聯合包裝裝潢有限公司) ("**Shanghai Rengo**") and Wuxi Rengo Packaging Company Limited* (無錫聯合包裝有限公司) ("**Wuxi Rengo**"), a limited company established in the PRC and owned as to 91% and 9% by Shanghai Rengo and Rengo Company Limited* (レンゴー株式會社). Shanghai Rengo and Wuxi Rengo provided a financial guarantees to Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited* (中山聯合鴻興造紙有限公司) to secure the banking facilities with an aggregate amount of RMB50,000,000.

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.

* *For identification purpose only*

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 Zheng Ye Leasing 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 18 December 2014 (the "**First Tenancy Agreement**") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..

  — Tenancy agreement dated 18 December 2014 (the "**Second Tenancy Agreement**") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,844 sq.m..

  — Tenancy agreement dated 18 December 2014 (the "**Third Tenancy Agreement**") in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

- Period:

  — The First Tenancy Agreement: for a term of two years from 1 January 2015 to 31 December 2016 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 two years from 1 January 2015 to 31 December 2016 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 two years from 1 January 2015 to 31 December 2016 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 is in amount of RMB293,621.

  — The Second Tenancy Agreement is in amount of RMB63,143.

  — The Third Tenancy Agreement is in amount of RMB12,582.

  — 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.

During the year, the rental fee of the premises from Zheng Ye Leasing amounted to RMB4,432,152 (2015: RMB4,432,152).

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 2016.

Major Customers and Suppliers

In the year under review, 30.82% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 15.03% of the Group's revenue for the year. 59.01% 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 28.45% 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.

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.

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 Hanchao
Chairman

Hong Kong, 24 March 2017

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)

Opinion

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 38 to 99, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Allowance for doubtful debts	
We identified the allowance for doubtful debts as a key audit matter due to the significance of the trade receivables to the consolidated financial statements and the management's judgement involved in the determining the allowance for the doubtful debts. As disclosed in notes 4 and 21 to the consolidated financial statements, in determining the allowance for doubtful debts, the management considers the credit history including default or delay in settlement, legal advice on disputed cases, subsequent settlements, ageing analysis of the trade receivables and financial position of debtors. As at 31 December 2016, the carrying amounts of trade receivables are RMB487,313,000 (net of allowance of RMB8,357,000).	Our procedures in relation to assessing the appropriateness of the allowance for doubtful debts included: • Obtaining an understanding of how the allowance for doubtful debts is estimated by the management; • Assessing the reasonableness of allowance for doubtful debts assessed by the management with reference to the credit history including default or delay in payments, legal advice on disputed cases, subsequent settlements, ageing analysis of the trade receivables and publicly available financial information of debtors; • Testing the accuracy of the aging analysis and subsequent settlements of the trade receivables, on a sample basis, to the supporting documents; and • Evaluating the historical accuracy of the allowance estimation by management by comparing historical allowance made to the actual settlements and actual loss incurred and tracing the actual settlements, on a sample basis, to the supporting documents.

Key audit matters	How our audit addressed the key audit matters
Disposal of a subsidiary	
We identified the disposal of a subsidiary (the "Disposal") as a key audit matter due to the significance of the transaction to the consolidated financial statements. The accounting policies in relation to the basis of consolidation is set out in note 3 to the consolidated financial statements. As disclosed in note 32 to the consolidated financial statements, the Group disposed of a wholly-owned subsidiary (the "Subsidiary") for a consideration of RMB34,000,000 during the year. A gain on disposal of RMB1,930,000 was recognised in profit or loss and there was a net cash inflow arising on disposal of RMB32,613,000 for the year.	Our procedures in relation to the disposal of a subsidiary included: • Inquiring with the management and reading the disposal agreements to obtain an understanding of the disposal arrangement; • Assessing whether the Disposal has been properly accounted for by the Group in the consolidated financial statements in accordance with the accounting policies, including verifying the accuracy of the income, expenses and cash flow of the Subsidiary contributed to the Group up to the date of the Disposal, and the result of the Disposal recognised in profit or loss; and • Evaluating the appropriateness and sufficiency of the disclosure in respect of the Disposal in the consolidated financial statements.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Yan Wah.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Revenue	5	**2,074,090**	1,807,765
Cost of sales		**(1,669,542)**	(1,464,027)
Gross profit		**404,548**	343,738
Other income	7	**34,308**	24,549
Other gains and losses	8	**(30,601)**	(14,753)
Distribution and selling expenses		**(69,410)**	(64,823)
Administrative expenses		**(116,574)**	(120,062)
Finance costs	9	**(43,963)**	(62,302)
Other expenses		**(674)**	(476)
Research and development costs		**(52,725)**	(49,153)
Profit before tax	11	**124,909**	56,718
Income tax expense	10	**(15,911)**	(14,025)
Profit and total comprehensive income for the year		**108,998**	42,693
Total comprehensive income for the year attributable to:			
Owners of the Company		**91,649**	41,136
Non-controlling interests		**17,349**	1,557
		108,998	42,693
Earnings per share			
Basic (RMB)	15	**0.18**	0.08
Diluted (RMB)	15	**N/A**	0.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
Non-current Assets			
Property, plant and equipment	16	**920,248**	981,150
Prepaid lease payments	17	**163,298**	206,349
Investment property	18	**13,773**	–
Other intangible assets	19	**1,074**	2,331
Deferred tax assets	28	**2,235**	868
Deposits for acquisition of property, plant and equipment		**12,696**	9,172
		1,113,324	1,199,870
Current Assets			
Inventories	20	**130,663**	139,843
Trade and other receivables	21	**894,373**	938,470
Prepaid lease payments	17	**4,720**	5,530
Pledged bank deposits	23	**123,367**	145,855
Short-term investment		**–**	10,000
Bank balances and cash		**159,518**	59,442
		1,312,641	1,299,140
Current Liabilities			
Trade and other payables	24	**739,835**	698,447
Tax liabilities		**11,856**	7,372
Bank borrowings	27	**636,873**	779,723
Other borrowings	27	**65,234**	43,982
Obligations under a finance lease	25	**350**	330
Amounts due to directors	26	**2,389**	2,620
Loans from a non-controlling equity owner of a subsidiary	26	**–**	25,138
		1,456,537	1,557,612
Net Current Liabilities		**(143,896)**	(258,472)
Total Assets Less Current Liabilities		**969,428**	941,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Capital and Reserves			
Share capital	29	**41,655**	41,655
Share premium and reserves		**638,721**	547,072
Equity attributable to owners of the Company		**680,376**	588,727
Non-controlling interests		**127,762**	110,413
Total Equity		**808,138**	699,140
Non-current Liabilities			
Deferred tax liabilities	28	**5,007**	2,074
Deferred income	31	**12,966**	34,276
Bank borrowings	27	**115,356**	38,500
Other borrowings	27	**20,143**	22,748
Obligations under a finance lease	25	**7,818**	8,168
Loans from a non-controlling equity owner of a subsidiary	26	**–**	136,492
		161,290	242,258
		969,428	941,398

The consolidated financial statements on pages 38 to 99 were approved and authorised for issue by the board of directors on 24 March 2017 and are signed on its behalf by:

HU HANCHAO
DIRECTOR

HU HANCHENG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attribute to owners of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Statutory reserve** RMB'000 (note 1)	**Share options reserve** RMB'000	**Other reserve** RMB'000 (note 2)	**Retained profits** RMB'000	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2015	41,655	92,968	96,309	1,364	(23,389)	338,684	547,591	108,856	656,447
Profit and total comprehensive income for the year	–	–	–	–	–	41,136	41,136	1,557	42,693
Transfer to statutory reserve	–	–	9,324	–	–	(9,324)	–	–	–
Transfer of share option reserve	–	–	–	(1,364)	–	1,364	–	–	–
At 31 December 2015	41,655	92,968	105,633	–	(23,389)	371,860	588,727	110,413	699,140
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**91,649**	**91,649**	**17,349**	**108,998**
Transfer to statutory reserve	**–**	**–**	**10,210**	**–**	**–**	**(10,210)**	**–**	**–**	**–**
At 31 December 2016	**41,655**	**92,968**	**115,843**	**–**	**(23,389)**	**453,299**	**680,376**	**127,762**	**808,138**

Notes:

(1) 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.

(2) The amount mainly relates to reserve arising from group reorganisation carried out by the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited in 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**124,909**	56,718
Adjustments for:			
Finance costs		**43,963**	62,302
Interest income		**(3,030)**	(3,836)
Income from short-term investments		**(348)**	(744)
Allowance for trade and receivables		**7,039**	–
Depreciation of property, plant and equipment		**78,724**	73,913
Depreciation of an investment property		**135**	–
Amortisation of prepaid lease payments		**4,821**	4,953
Amortisation of other intangible assets		**1,257**	1,806
(Gain) loss on disposals of property, plant and equipment		**(192)**	37
Gain on disposal of a subsidiary		**(1,930)**	–
Loss on termination of an investment project		**8,049**	–
Exchange loss on borrowings		**17,651**	12,279
Amortisation of government grant relating to non-current assets		**(1,310)**	(424)
Operating cash flows before movements in working capital		**279,738**	207,004
Decrease in inventories		**9,180**	7,542
Decrease in trade and other receivables		**37,058**	104,229
Decrease in borrowings relating to discounted bills receivables		**(30,273)**	(18,463)
Increase (decrease) in trade and other payables		**49,269**	(31,692)
(Decrease) increase in amounts due to directors		**(231)**	383
Cash generated from operations		**344,741**	269,003
Income tax paid		**(9,861)**	(13,421)
NET CASH FROM OPERATING ACTIVITIES		**334,880**	255,582
INVESTING ACTIVITIES			
Interest received		**3,030**	3,836
Proceeds on disposal of property, plant and equipment		**4,537**	2,113
Purchases of property, plant and equipment		**(58,276)**	(97,886)
Purchases of short-term investments		**–**	(284,000)
Proceeds from redemption of short-term investments		**10,348**	279,744
Deposits paid for acquisition of property, plant and equipment		**(12,696)**	(9,172)
Disposal of a subsidiary	32	**32,613**	–
Placement of pledged bank deposits		**(268,963)**	(328,792)
Withdrawal of pledged bank deposits		**291,451**	328,869
Receipt of government grant relating to non-current assets		**3,800**	7,663
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**5,844**	(97,625)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
FINANCING ACTIVITIES			
Interest paid		**(43,443)**	(61,763)
Repayment of bank borrowings		**(836,420)**	(979,248)
Repayments of obligations under finance leases		**(850)**	(850)
Repayments of other borrowings		**(46,652)**	(34,162)
New other borrowings raised		**65,299**	49,821
New bank borrowings raised		**799,994**	930,380
Repayment of loan from a non-controlling equity owner of a subsidiary		**(178,576)**	(44,264)
NET CASH USED IN FINANCING ACTIVITIES		**(240,648)**	(140,086)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**100,076**	17,871
CASH AND CASH EQUIVALENTS AT 1 January		**59,442**	41,571
CASH AND CASH EQUIVALENTS AT 31 December represented by bank balances and cash		**159,518**	59,442

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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 have given careful consideration of the Group in light of its net current liabilities of RMB143,896,000 and also commitments as at 31 December 2016. On the basis that the Group has secured credit facilities of approximately RMB264,425,000 which remains unutilised at the date of the consolidated financial statements ended 31 December 2016, 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective of the current year

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

Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27	*Equity Method in Separate Financial Statements*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2012–2014 Cycle*

In the opinion of the Company's directors, the application of the amendments to 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 7	*Disclosure Initiative*[4]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[4]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2014–2016 Cycle*[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequently accounting period. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 Financial Instruments (Continued)

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the directors of the Company anticipate that the application of HKFRS 9 in the future may not have other material impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments at 31 December 2016.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods of services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretation when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows, Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold land where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially, carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB58,870,000 as disclosed in note 33. A preliminary assessment indicates that some of these arrangements may meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except for the impact of HKFRS 9, 15, 16 and amendment to HKAS 7, the directors of the Company anticipate the application of other new and revised HKFRSs will have no material impact on the Group's 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 ("**CO**").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, 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 and services.

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, 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*.

A fair value measurement of a non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best 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.

3. Significant Accounting Policies (Continued)

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.

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. Specially, 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.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attribute to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit of loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). 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.

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised , and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of the reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. Significant Accounting Policies (Continued)

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 is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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 subsequent 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.

3. Significant Accounting Policies (Continued)

Investment properties

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

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

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. 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).

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

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

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

3. Significant Accounting Policies (Continued)

Foreign currencies

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis 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 and termination benefits

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

A liability for a termination benefits is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring cost.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. Significant Accounting Policies (Continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to directors and employees

Equity-settled share-based payments to directors and employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to Share Premium. When 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.

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 items 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 bases 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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

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

Current and deferred tax 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. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Internally-generated intangible assets — research and development expenditure

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

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

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

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognised in profit or loss when the asset is derecognised.

3. Significant Accounting Policies (Continued)

Impairment on tangible and intangible assets other than goodwill

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). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. 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.

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 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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 or 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 market place.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designed as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes dividend or interest earned on the financial assets and 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 38.

Loans and receivables

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

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, 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; or
- the disappearance of an active market for that financial assets because of financial difficulties.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

The Group's financial liabilities (including trade and other payables, amounts due to directors and borrowings) are subsequently measured at amortised cost, using the effective interest method.

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the rights and rewards of ownership of a transferred financial assets, the Group continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

4. Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade receivables. Allowance is applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the management's judgement and estimation of future cash flows. The management may considers the credit history including default or delay in settlement, legal advice on disputed cases, subsequent settlement, ageing analysis of the trade receivables and financial position of debtors. Where the actual outcome or expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts in the period in which such estimate has changed. As at 31 December 2016, the carrying amounts of trade receivables are RMB487,313,000 (net of allowance of RMB8,357,000) (2015: carrying amount of RMB486,758,000 (net of allowance of RMB1,318,000)).

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 or expected useful lives of property, plant and equipment is less than the original estimate useful lives or revision of estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. At 31 December 2016, the carrying amounts of property, plant and equipment are RMB920,248,000 (2015: RMB981,150,000).

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, 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 2016

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	**723,165**	**1,350,925**	**2,074,090**
Inter-segment sales	**–**	**85,749**	**85,749**
Segment revenue	**723,165**	**1,436,674**	**2,159,839**
Eliminations			**(85,749)**
Group revenue			**2,074,090**
Segment profit	**5,910**	**119,280**	**125,190**
Eliminations			**59**
			125,249
Unallocated corporate expenses, net			**(340)**
Profit before tax			**124,909**

Other segment information included in the measurement of segment results:

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Depreciation	**23,477**	**55,382**	**78,859**
Amortisation	**267**	**4,438**	**4,705**
Impairment of trade receivables	**4,552**	**2,487**	**7,039**
Impairment of inventories	**–**	**2,436**	**2,436**

6. Segment Information (Continued)

(a) Segment revenue and results (Continued)

For the year ended 31 December 2015

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	809,751	998,014	1,807,765
Inter-segment sales	–	79,476	79,476
Segment revenue	809,751	1,077,490	1,887,241
Eliminations			(79,476)
Group revenue			1,807,765
Segment profit	11,461	47,401	58,862
Eliminations			(59)
			58,803
Unallocated corporate expenses, net			(2,085)
Profit before tax			56,718

Other segment information included in the measurement of segment results:

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Depreciation	23,440	50,473	73,913
Amortisation	399	6,360	6,759

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:

	2016 RMB'000	2015 RMB'000
Brown Box	**448,340**	511,183
Corrugated medium paper AA grade	**1,329,041**	810,242
Honeycomb Paper	**189,330**	213,987
Corrugated medium paper C grade	**21,884**	187,772
Color Box	**85,495**	84,581
	2,074,090	1,807,765

(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:

	2016 RMB'000	2015 RMB'000
Customer A[1]	**311,837**	344,812

[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

	2016 RMB'000	2015 RMB'000
Interest income	**3,030**	3,836
Income from short-term investments	**348**	744
Management fee income	**185**	210
Sales of scrap materials	**507**	497
Government grants (note)	**30,128**	18,270
Sundry income	**110**	992
Total	**34,308**	24,549

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.

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For the year ended 31 December 2016

8. Other Gains and Losses

	2016 RMB'000	2015 RMB'000
Exchange loss, net	**(17,635)**	(14,716)
Gain (loss) on disposals of property, plant and equipment, net	**192**	(37)
Gain on disposals of a subsidiary (Note 32)	**1,930**	–
Loss on termination of an investment project (Note 36)	**(8,049)**	–
Impairment losses recognised on trade and other receivables	**(7,039)**	–
	(30,601)	(14,753)

9. Finance Costs

	2016 RMB'000	2015 RMB'000
Interest on:		
Bank borrowings	**37,785**	54,900
Other borrowings	**3,662**	4,557
Loans from a non-controlling equity owner of a subsidiary	**1,996**	2,306
Finance leases	**520**	539
	43,963	62,302

10. Income Tax Expense

	2016 RMB'000	2015 RMB'000
Hong Kong profits tax:		
Current tax	**–**	–
PRC Enterprise Income Tax:		
Current tax	**15,510**	10,125
(Over) under-provision in prior years	**(1,165)**	3,743
	14,345	13,868
Withholding Tax	**–**	–
Deferred tax (note 28):		
Current year	**1,566**	157
	15,911	14,025

10. Income Tax Expense (Continued)

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the both years.

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 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%.

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**") and Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa Paper**") obtained the Advanced-technology Enterprise Certificate in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain conditions. In 2012 and 2015, Zheng Ye Packaging (Zhongshan) and Zhong Shan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited ("**Zheng Ye Packaging (Zhuhai)**") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016. In 2016, Zhuhai Zheng Ye Packaging Company Limited ("**Zheng Ye Packaging (Zhuhai)**") have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2019.

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:

	2016 RMB'000	2015 RMB'000
Profit before tax	**124,909**	56,718
PRC Enterprise Income Tax at 25%	**31,227**	14,180
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(2,604)**	(903)
Tax effect of expenses not deductible for tax purpose	**5,522**	5,025
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	**(7,778)**	(5,951)
Effect of different tax rate of subsidiaries operating of other jurisdictions	**(3,517)**	(3,832)
Tax effect of tax losses not recognised	**2,912**	2,400
Tax effect of deductible temporary difference not recognised	**1,427**	2,263
Utilization of deductible temporary difference previously not recognised	**(197)**	(199)
Utilisation of tax losses previously not recognised	**(13,016)**	(2,701)
(Over) under-provision in respect of prior years	**(1,165)**	3,743
Withholding tax on undistributed profits of PRC Subsidiaries	**3,100**	–
Tax charge for the year	**15,911**	14,025

11. Profit for the Year

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

	2016 **RMB'000**	2015 RMB'000
Depreciation of property, plant and equipment	**78,724**	73,913
Depreciation of an investment property	**135**	–
Amortisation of other intangible assets	**1,257**	1,806
Amortisation of prepaid lease payments	**5,061**	5,530
Less: Amount capitalised in construction in progress	**(240)**	(577)
Less: Amount capitalised in inventories	**(63,138)**	(52,291)
Total depreciation and amortisation	**21,799**	28,381
Auditor's remuneration	**1,743**	2,068
Exchange loss, net	**17,635**	14,716
Cost of inventories recognised as expense	**1,669,542**	1,464,027
Operating lease rental in respect of		
— rented factory and office premises	**19,611**	19,361
— rented vehicles	**59**	178
Staff costs		
— directors' and chief executive's emoluments	**5,769**	7,723
— salaries and other benefits costs	**221,301**	217,182
— retirement benefits scheme contribution	**17,579**	18,405
Total staff costs	**244,649**	243,310

12. Directors' and Chief Executive's Emoluments

The emoluments paid or payable to each of the 7 (2015: 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 2016					
Hu Zheng	**2,029**	–	–	**14**	**2,043**
Hu Hanchao	**1,840**	–	–	**14**	**1,854**
Hu Hancheng	**1,200**	–	–	**12**	**1,212**
Hu Hanxiang	**360**	–	–	–	**360**
Wu Youjun	**85**	–	–	–	**85**
Zhu Hongwei	**85**	–	–	–	**85**
Chung Kwok Mo John	**130**	–	–	–	**130**
	5,729	–	–	**40**	**5,769**

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

	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 2015					
Hu Zheng	2,000	–	–	52	2,052
Hu Hanchao	1,840	–	–	11	1,851
Hu Hancheng	1,840	–	–	10	1,850
Hu Hanxiang	360	–	–	–	360
Wu Youjun	85	–	–	–	85
Zhu Hongwei	85	–	–	–	85
Chung Kwok Mo John	122	–	–	–	122
Zhang Xiaoming (resigned on 31 December 2015)	699	–	–	11	710
Hong Guanghua (resigned on 31 December 2015)	600	–	–	8	608
	7,631	–	–	92	7,723

Note:

Mr. Hu Hancheng and Mr. Hu Zheng are also the Chief Executives of the Company and their emolument disclosed above include those for services rendered by them as the Chief Executives.

Neither the chief executive nor any of the directors waived any emoluments during the years ended 31 December 2016 and 2015.

13. Five Highest Paid Employees

The five highest paid employees of the Group during the year included three directors (2015: four directors), details of whose remuneration are set out in note 12 above. Details of the remunerations for the year of remaining two (2015: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries	**1,266**	724
Retirement benefits scheme	**27**	13
	1,293	737

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14. Dividends

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of RMB0.055 per share (year ended 31 December 2015: Nil per share), in aggregate amount of RMB27,500,000, has been proposed by the directors of the Company, and is subject to approval by the shareholders in the forthcoming general meeting.

No dividend in respect of the year ended 31 December 2015 was approved by shareholders in the annual general meeting on 17 June 2016.

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:

	2016 RMB'000	2015 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**91,649**	41,136
Number of shares		
Number of ordinary shares for the purposes 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 2015 did 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 31 December 2015.

No diluted earnings per share for the years ended 31 December 2016 were presented as there were no potential ordinary shares in issue for the years ended 31 December 2016.

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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 2015	184,873	5,195	22,093	25,751	881,788	56,520	1,176,220
Additions	523	1,265	1,479	4,908	2,930	102,628	113,733
Disposals	(1,561)	(1,742)	(1,414)	(2,806)	(5,937)	–	(13,460)
Transfer from construction in progress	17,598	–	412	–	76,874	(94,884)	–
At 31 December 2015	201,433	4,718	22,570	27,853	955,655	64,264	1,276,493
Additions	431	3,500	945	630	3,076	59,691	68,273
Disposals	–	–	(442)	(3,674)	(5,408)	–	(9,524)
Disposal of a subsidiary (Note 32)	–	–	–	–	–	(27,259)	(27,259)
Termination of an investment project (Note 36)	–	–	–	–	–	(4,939)	(4,939)
Transfer from construction in progress	–	–	–	–	75,295	(75,295)	–
Transfer to investment property (Note 18)	(14,598)	–	–	–	–	–	(14,598)
At 31 December 2016	187,266	8,218	23,073	24,809	1,028,618	16,462	1,288,446
DEPRECIATION							
At 1 January 2015	49,067	3,685	10,857	12,756	152,554	–	228,919
Provided for the year	9,258	2,117	3,870	3,923	54,745	–	73,913
Eliminated on disposals	(23)	(1,651)	(683)	(2,266)	(2,866)	–	(7,489)
At 31 December 2015	58,302	4,151	14,044	14,413	204,433	–	295,343
Provided for the year	9,323	1,055	2,217	4,284	61,845	–	78,724
Eliminated on disposals	(118)	–	(344)	(1,968)	(2,749)	–	(5,179)
Transfer to investment property (Note 18)	(690)	–	–	–	–	–	(690)
At 31 December 2016	66,817	5,206	15,917	16,729	263,529	–	368,198
CARRYING VALUES							
At 31 December 2015	143,131	567	8,526	13,440	751,222	64,264	981,150
At 31 December 2016	120,449	3,012	7,156	8,080	765,089	16,462	920,248

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 with carrying amount of RMB5,418,000 (2015: RMB5,763,000) are held under finance lease.

Details of property, plant and equipment pledged are set out in note 35.

17. Prepaid Lease Payments

	2016	2015
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current asset	**4,720**	5,530
Non-current asset	**163,298**	206,349
	168,018	211,879
Leasehold land in the PRC		
Medium term lease	**168,018**	211,879

During the year, the Group has disposed a land use right amounted to RMB10,736,000 through the disposal of a subsidiary and written off the prepaid lease payment for a land use right amounted to RMB28,063,000 on the termination of an investment project. Details are set out in notes 32 and 36.

Details of land use rights pledged are set out in note 35.

18. Investment Property

	An investment property RMB'000
COST	
At 1 January 2015 and 31 December 2015	–
Transfer from property, plant and equipment (Note 16)	14,598
At 31 December 2016	14,598
DEPRECIATION	
At 1 January 2015 and 31 December 2015	–
Transfer from property, plant and equipment (Note 16)	690
Provided for the year	135
At 31 December 2016	825
CARRYING VALUES	
At 31 December 2016	13,773
At 31 December 2015	–

The investment property was transferred from property, plant and equipment in October 2016.

The fair value of the Group's investment property at 31 December 2016 was RMB14,959,000 (2015: Nil). The fair value has been arrived at based on a valuation carried out by KeXing Appraisal Company Limited, independent valuers not connected with the Group.

The fair value was determined based on the direct comparison approach, where the unit price per square meter of all units of the properties are assessed in accordance with the market price expected by investor for this type of properties. The market price is assessed by reference to the listing prices achieved in the similar properties in the neighbourhood. The key input is price per square metre.

In estimating the fair value of the properties, the highest and best use of the property is their current use.

Details of the Group's investment property and information about the fair value hierarchy as at the end of the reporting period are as follows:

	Fair value Hierarchy	**Fair value as at 31 December 2016** RMB'000
Office unit located in Zhongshan City	Level 3	14,959,000

The above investment property is depreciated on a straight-line basis at the following rate per annum:

Buildings	2.25%

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19. Other Intangible Assets

	Development costs RMB'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	8,563
AMORTISATION	
At 1 January 2015	4,426
Charge for the year	1,806
At 31 December 2015	6,232
Charge for the year	1,257
At 31 December 2016	7,489
CARRYING VALUES	
At 31 December 2016	1,074
At 31 December 2015	2,331

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.

20. Inventories

	2016 **RMB'000**	2015 RMB'000
Raw material and consumables	**103,780**	98,307
Work in progress	**11,035**	16,681
Finished goods	**15,848**	24,855
	130,663	139,843

Details of inventories pledged are set out in note 35.

21. Trade and Other Receivables

	2016 RMB'000	2015 RMB'000
Trade receivables	**495,670**	488,076
Less: allowance for doubtful debts	**(8,357)**	(1,318)
	487,313	486,758
Advances to suppliers	**3,213**	2,945
Bills receivables	**384,355**	424,651
Prepayments	**2,895**	4,519
Other receivables	**16,597**	19,597
	403,847	448,767
Total trade and other receivables	**894,373**	938,470

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

The following is an aged analysis of trade receivables presented based on dates of delivery of goods, at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
0–60 days	**337,209**	334,122
61–90 days	**70,438**	87,520
91–180 days	**57,450**	63,942
Over 180 days	**22,216**	1,174
	487,313	486,758

21. Trade and Other Receivables (Continued)

The aged analysis of bills receivables based on dates of delivery of goods, at the end of the reporting period are analysed as follows:

	2016 RMB'000	2015 RMB'000
0–60 days	**34,724**	42,476
61–90 days	**115,994**	98,105
91–180 days	**189,342**	183,180
Over 180 days	**44,295**	100,890
Total	**384,355**	424,651

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 RMB39,107,000 (2015: RMB13,681,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable after taking into account the significant settlements subsequent to the end of reporting period, legal advice on disputed cases, the repayment histories and financial position of debtors. The Group does not hold any collateral over these balances. Trade receivables in which customers have provided bills for settlement are not considered as past due.

Ageing of trade receivables which are past due but not impaired

	2016 RMB'000	2015 RMB'000
Overdue by		
0–30 days	**17,925**	7,507
31–60 days	**2,736**	4,602
61–90 days	**2,911**	801
Over 90 days	**15,535**	771
Total	**39,107**	13,681

21. Trade and Other Receivables (Continued)

Movement in the allowance for doubtful debts

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	1,318	1,318
Impairment losses recognised on trade receivables	7,039	–
Balance at end of the year	8,357	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 35.

During the year ended 31 December 2016, the Group discounted bills receivable of external customers with recourse in aggregated amounts of RMB71,975,000 (2015: RMB177,849,000) to banks for short term financing of which the associated borrowings amounting to RMB71,116,000 (2015: RMB174,626,000) and the relevant cash flows relating to external customers 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 2016 and 2015 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 borrowings (see note 27).

Bills receivables of external customers are carried at amortised cost. Bills receivables arising from intra-group transactions in which the relevant group entities discounted or transferred the bills to banks or suppliers, such bills receivables and related intra-group payables have been eliminated in the Group's consolidated statement of financial position.

As at 31 December 2016

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of bills receivables	135,474	493,040	628,514
— external customers	26,239	297,084	323,323
— intra-group customers	109,235	195,956	305,191
Carrying amount of trade payables	–	(493,040)	(493,040)
Carrying amount of bank loans	(135,474)	–	(135,474)

22. Transfers of Financial Assets (Continued)

As at 31 December 2015

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of bills receivables	292,438	511,429	803,867
— external customers	56,511	341,228	397,739
— intra-group customers	235,927	170,201	406,128
Carrying amount of trade payables	–	(511,429)	(511,429)
Carrying amount of bank loans	(292,438)	–	(292,438)

23. Pledged Bank Deposits and Bank Balances and Cash

Bank balances carry interest at market rates within range from 0.01% to 0.35% (2015: 0.01% to 0.30%) per annum. The pledged deposits carry interest rates which range from 0.35% to 2.75% (2015: 0.30% to 2.75%) per annum.

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB123,367,000 (31 December 2015: RMB145,855,000) have been pledged to secure the short-term bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

24. Trade and Other Payables

	2016 RMB'000	2015 RMB'000
Trade payables	**399,690**	445,116
Bills payables — secured	**218,971**	148,043
Other tax payables (note)	**62,347**	42,648
Payroll and welfare payables	**25,430**	27,916
Construction payables	**4,450**	865
Advance from customers	**9,572**	11,554
Others	**19,375**	22,305
	739,835	698,447

Note: Included in other tax payables is RMB56,487,000 (2015: RMB37,268,000) provision of value-added tax.

24. Trade and Other Payables (Continued)

The following is an aged analysis of trade payables presented based on the dates of receipt of goods at the end of the reporting period.

	2016	2015
	RMB'000	RMB'000
0–60 days	**255,885**	207,827
61–90 days	**50,686**	95,600
91–180 days	**82,316**	115,897
Over 180 days	**10,803**	25,792
	399,690	445,116

The aged analysis of bills payables based on the dates of receipt of goods at the end of the reporting period are analysed as follows:

	2016	2015
	RMB'000	RMB'000
0–60 days	**65,130**	32,520
61–90 days	**8,950**	5,000
91–180 days	**89,341**	110,523
Over 180 days	**55,550**	–
	218,971	148,043

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to monitor the settlement.

25. Obligations under Finance Leases

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**350**	330
Non-current liabilities	**7,818**	8,168
	8,168	8,498

The Group has leased certain of its plant and machinery under finance leases at fixed interest rate of 6.12% per annum (2015: 6.12% per annum). The lease term is 20 years (2015: 20 years).

	Minimum lease payments		Present value of minimum lease payments	
	2016 **RMB'000**	2015 RMB'000	**2016** **RMB'000**	2015 RMB'000
Obligations under finance leases payable:				
Within one year	**850**	850	**350**	330
Within a period of more than one year but not exceeding two years	**850**	850	**372**	350
Within a period of more than two years but not more than five years	**2,550**	2,550	**1,257**	1,184
Within a period of more than five years	**7,333**	8,183	**6,189**	6,634
	11,583	12,433	**8,168**	8,498
Less: future finance charges	**(3,415)**	(3,935)	**N/A**	N/A
Present value of lease obligations	**8,168**	8,498	**8,168**	8,498
Less: Amounts due for settlement within one year (shown under current liabilities)			**(350)**	(330)
Amounts due for settlement after one year			**7,818**	8,168

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

26. Amounts Due to Directors/Loans from a Non-Controlling Equity Owner of a Subsidiary

The amounts due to directors are unsecured, interest free and repayable on demand.

Loans from a non-controlling equity owner of a subsidiary of last year were repaid in full during this year before the expiry date as mutually agreed by both contractual parties.

The carrying amount of loans from a non-controlling equity owner of a subsidiary of last year was repayable based on the scheduled repayment dates set out in the loan agreements:

	2015 RMB'000
Within one year	25,138
Within a period of more than one year but not exceeding two years	25,138
Within a period of more than two years but not exceeding five years	75,414
Within a period of more than five years	35,940
	161,630
Less: Amounts due within one year shown under current liabilities	(25,138)
Amounts shown under non-current liabilities	136,492

27. Bank and Other Borrowings

Bank Borrowings

	2016 **RMB'000**	2015 RMB'000
Bank loans, secured	**752,229**	818,223
Carrying amount repayable:		
Within one year	**636,873**	779,723
Within in a period of more than one year but not exceeding two years	**33,128**	14,000
Within in a period of more than two years but not exceeding five years	**82,228**	24,500
	752,229	818,223
Less: Amounts due within one year shown under current liabilities	**(636,873)**	(779,723)
Amounts shown under non-current liabilities	**115,356**	38,500

27. Bank and Other Borrowings (Continued)

Bank Borrowings (Continued)

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

	2016 **RMB'000**	2015 RMB'000
USD	–	1,198
HKD	–	27,497
	–	28,695

Bank borrowings as at year end were secured by the pledge of assets as set out in note 35.

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

	2016	2015
Effective interest rate:		
Fixed rate borrowings	**3.16% to 7.22% per annum**	2.58% to 7.22% per annum
Variable rate borrowings	**3.63% to 6.69% per annum**	2.40% to 6.69% per annum

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

At 31 December 2016, variable-rate bank borrowings are amounting to RMB201,500,000 (2015: RMB126,616,000). 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 2016, fixed rate bank borrowings are amounting to RMB550,729,000 (2015: RMB691,607,000).

As at 31 December 2016, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounting to RMB26,239,000 (2015: RMB56,511,000), and (ii) intra-group bills receivables amounting to RMB102,985,000 (2015: RMB235,927,000), to banks with recourse.

27. Bank and Other Borrowings (Continued)

Other Borrowings

	2016 RMB'000	2015 RMB'000
Secured (note 1)	**41,877**	56,730
Unsecured (note 2)	**43,500**	10,000
	85,377	66,730
Carrying amount repayable:		
Within one year	**65,234**	43,982
Within a period of more than one year but not exceeding two years	**14,509**	15,480
Within a period of more than two years but not exceeding five years	**5,634**	7,268
	85,377	66,730
Less: Amount due within one year shown under current liabilities	**(65,234)**	(43,982)
Amounts shown under non-current liabilities	**20,143**	22,748

Notes:

(1) The Group has entered into agreements (the "**Agreements**") with a PRC financial institution ("**Financial Institution**") whereby the Group drew down RMB21,800,000 (2015: RMB39,821,000) from the Financial Institution (included in other borrowings) which is to be repayable within 3 years at variable rates based on Benchmark Rate plus a premium at 9.86% (2015: ranging from 10.13% to 12.95%) per annum.

As collaterals for the above financing, the Group transferred the ownership title of the related machineries to the Financial Institution.

Upon discharging all the Group's obligations under the Agreements, the Financial Institution will return the ownership title of the machineries to the Group for nominal amount of RMB100. Despite the Agreements involve a legal form of a lease, the Group accounted for the Agreements, as collateralised borrowings in accordance with the actual substance of the Agreements.

(2) Loan of RMB43,500,000 (2015: RMB10,000,000) are included in other borrowings in the consolidated statement of financial position at 31 December 2016, which is obtained from two companies (2015: one company) controlled by a non-controlling equity owner of a subsidiary. The loans are arranged as an entrusted loan through a bank, which is to be repayable within one year at fixed interest rate of 3.16% per annum (2015: 4.35%).

28. Deferred Taxation

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:

	2016 **RMB'000**	2015 RMB'000
Deferred tax assets	**(2,235)**	(868)
Deferred tax liabilities	**5,007**	2,074
	2,772	1,206

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

	Deferred income RMB'000	**Impairment on receivables** RMB'000	**Depreciation differences** RMB'000	**Undistributed profit of a subsidiary** RMB'000	**Tax losses** RMB'000	**Total** RMB'000
At 1 January 2015	(394)	(198)	2,240	–	(599)	1,049
(Credit) Charge for the year	(276)	–	(166)	–	599	157
At 31 December 2015	(670)	(198)	2,074	–	–	1,206
(Credit) Charge for the year	**(585)**	**(783)**	**(166)**	**3,100**	**–**	**1,566**
At 31 December 2016	**(1,255)**	**(981)**	**1,908**	**3,100**	**–**	**2,772**

28. Deferred Taxation (Continued)

At the end of the reporting period, the Group has unused tax losses of RMB97,432,000 (2015: RMB145,274,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the remaining RMB97,432,000 (2015: RMB145,274,000) due to the unpredictability of future profit streams. The unrecognised tax losses at the end of reporting period will be expired in the following years:

	2016 RMB'000	2015 RMB'000
2016	**N/A**	54,694
2017	**51,225**	51,314
2018	**18,168**	18,356
2019	**10,358**	11,310
2020	**6,031**	9,600
2021	**11,650**	N/A
	97,432	145,274

Under the EIT law of PRC, withholding tax is imposed on 10% of 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 RMB472,440,000 (2015: RMB404,050,000). 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.

29. Share Capital

	Number of shares	**Nominal value** HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	500,000,000	50,000,000

	RMB'000
Presented as at 31 December 2015 and 2016	41,655

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

30. Share-based Payment Transactions and Retirement Benefits Schemes

Share-based Payment Transactions

Pursuant to a resolution passed on 20 January 2012, the Company offered to grant share options (the "**Share 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 Share Options would expire on 30 June 2015.

Details of share-based payment options granted to the Group's employees and directors as follows:

Category of grantee	Date of grant	Vesting period	Exercise period	Exercise price HKD
Category I	20/01/2012	None	20/01/2012–30/06/2013	0.82
Category II	20/01/2012	20/01/2012–30/06/2013	01/07/2014–30/06/2014	0.82
Category III	20/01/2012	20/01/2012–30/06/2014	01/07/2015–30/06/2015	0.82

Of a total 21,350,000 share options, 7,260,000 share options were fully vested on date of grant as Category I, 7,010,000 share options were vested on 30 June 2013 as Category II and the remaining 7,080,000 share options were vested on 30 June 2014 as Category III.

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

	Outstanding at 1/1/2015	Lapsed during the year	Outstanding at 31/12/2015 and 31/12/2016
Employees:			
Category I	–	–	–
Category II	–	–	–
Category III	5,390,000	(5,390,000)	–
	5,390,000	(5,390,000)	–
Directors:			
Category I	–	–	–
Category II	–	–	–
Category III	850,000	(850,000)	–
	850,000	(850,000)	–
Total	6,240,000	(6,240,000)	–
Exercisable at end of the year	6,240,000		–

There are no share option granted and no expense in relation to share option granted by the Group recognised during the both years.

30. Share-based Payment Transactions and Retirement Benefits Schemes (Continued)

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 the control of a trustee. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,500 per month (2015: HK$1,500 per month thereafter) for each employee.

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 expenses recognised in profit or loss of RMB17,579,000 (2015: RMB18,405,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

31. Deferred Income

In 2012, the Group received a government subsidy of RMB23,800,000 for the cost of construction of its corrugated medium paper plant. The amount was treated as deferred income at 31 December 2015. During the year end 31 December 2016, the amount was credited to profit or loss due to the termination of an investment project in relation to the construction of a new paper-making plant and facilities as disclosed in note 36.

In 2016, the Group also received government subsidies of RMB3,800,000 (2015: RMB7,550,000) for the cost of constructions of its paper-based package plant and the replacement of machineries. The amounts were treated as deferred income at 31 December 2016 and 2015. The amounts are transferred to income over the useful lives of the relevant assets. The amounts transferred to income during the current year is RMB1,310,000 (2015: RMB424,000).

32. Disposal of a Subsidiary

For the year ended 31 December 2016

In June 2016, the Group entered into agreements to dispose of its entire equity interest in a subsidiary, Hefei City Zhengye Packaging Company Limited ("**Hefei Zhengye**"), to an independent third party for a consideration of RMB34,000,000. The disposal was completed on 30 September 2016 ("**Date of Disposal**").

The above transaction is accounted for as disposal of a subsidiary. Details of the net assets of Hefei Zhengye at the Date of Disposal were as follows:

(a) Consideration received

	RMB'000
Cash received	**34,000**
Total consideration received	**34,000**

32. Disposal of a Subsidiary (Continued)

For the year ended 31 December 2016 (Continued)

(b) Analysis of assets and liabilities over which control was lost:

	Date of Disposal RMB'000
Bank balances and cash	**1,387**
Property, plant and equipment	**27,259**
Prepaid lease payments	**10,737**
Trade and other payables	**(7,313)**
Net assets disposed of	**32,070**
Gain on disposal of subsidiary:	
Cash received	**34,000**
Net assets disposed of	**32,070**
Gain on disposal	**1,930**
Net cash inflow arising on disposal:	
Cash received	**34,000**
Less: Bank balances and cash disposal of	**(1,387)**
	32,613

33. Operating Leases

The Group as lessee

Minimum lease payments under operating leases during the year:

	2016 RMB'000	2015 RMB'000
Factory and office premises	**19,611**	19,361
Vehicles	**59**	178
	19,670	19,539

33. 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:

	2016 **RMB'000**	2015 RMB'000
Within one year	**22,198**	15,964
In the second to fifth year inclusive	**31,925**	30,340
Over five years	**4,747**	18,716
	58,870	65,020

Operating lease payments represent rentals payable by the Group for certain of its factory premises, and machineries and vehicles. Leases are negotiated for a term ranging from 1 year to 10 years (2015: 1 year to 10 years). Rentals are fixed at the date of signing of lease agreements.

34. Capital Commitments

	2016 **RMB'000**	2015 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**48,275**	32,267

35. Pledge of Assets

The following assets were pledged to secure certain banking and other facilities (including properties, plant and equipment under finance leases) granted to the Group at the end of the reporting period:

	2016 **RMB'000**	2015 RMB'000
Buildings and construction in progress	**76,863**	85,057
Plant and machinery	**223,372**	242,344
Land use right	**162,057**	178,010
Trade receivables	**80,000**	80,000
Bills receivables	**26,239**	58,011
Pledged bank deposits	**123,367**	145,855
Short-term investment	**–**	10,000
Inventories	**45,108**	62,031
	737,006	861,308

In addition to the pledge of assets above, bank borrowings of RMB109,235,000 (2015: RMB235,927,000) are secured by the discounted intra-group bills receivables as at 31 December 2016.

36. Non-cash Transaction

Termination of an Investment Project

In 2012, the Group entered into several agreements & memorandum ("**Investment Agreements**") with municipal government of Songzi City ("**Municipal Government**") in relation to the construction of a paper-making production facility ("**Investment Project**") in Songzi City, Hubei Province, PRC. Subsequent to the signing of Investment Agreements, the Group obtained a land use right of a piece of land situated at Songzi City at a consideration of RMB28,800,000 through public bidding. The Municipal Government granted government subsidies of RMB23,800,000 and RMB5,000,000 to the Group for the purpose of the construction of paper-making production facilities and preliminary stage work respectively. RMB5,000,000 was credited to profit or loss on receipt and RMB23,800,000 was included in deferred income. During the year, the Group entered into a termination agreement with the Municipal Government for the termination of the Investment Project. Pursuant to the termination agreement, the Group has agreed to return the land use right to the Municipal Government at nil consideration where the Municipal Government has agreed not to demand for the refund of the government subsidies being granted to the Group and bear all the taxes in relation to the land use rights. Both parties have agreed not to claim for any compensation for losses arisen from the termination. As at the date of termination, the Group has incurred construction costs of RMB4,939,000, accrued taxes payable of RMB1,153,000 in relation to the land use right, prepaid lease payment of RMB28,063,000 and deferred income of RMB23,800,000. On termination, the related assets and liabilities are being charged or credited to profit or loss and the resulting loss on termination of investment project of RMB8,049,000 is included in the other gains and losses.

37. 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 loans from a non-controlling equity owner of subsidiaries and bank borrowings and other borrowings as disclosed in note 26 and 27 separately, 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.

38. Financial Instruments

a. Categories of financial instruments

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,171,202**	1,133,898
Financial assets designated as at fair value through profit or loss	**–**	10,000
Financial liabilities (excluded obligations under finance leases)		
Amortised cost	**1,481,204**	1,661,133

38. Financial Instruments (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, short-term investment, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to directors, bank and other borrowings, obligations under a finance lease and loans from a non-controlling equity owner of a subsidiary. 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.

Market risk

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

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

(i) *Currency risk*

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

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

The carrying amount of the Group's foreign currency denominated monetary assets (mainly including bank balances and cash, pledged bank deposits, trade and other receivables) and monetary liabilities (mainly including trade and other payable, bank borrowings and loans from a non-controlling equity owner of a subsidiary) at the reporting date are as follows:

	2016	2015
	RMB'000	RMB'000
Assets		
USD	**796**	1,285
HKD	**780**	1,127
Liabilities		
USD	**19,972**	11,946
HKD	**1,075**	27,457
JPY	**–**	162,290

38. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The Group mainly exposes to the currency of USD, HKD and JPY relative to RMB.

The following table details the Group's sensitivity to a 10% (2015: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% 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% (2015: 10%) change in foreign currency rates. The sensitivity analysis includes bank borrowings, loans from a non-controlling equity owner of a subsidiary as well as bank balances denominated in foreign currencies. A positive number below indicates an increase in post-tax profit where the RMB strengthens 10% (2015: 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.

	2016 RMB'000	2015 RMB'000
USD		
Profit or loss	**1,632**	801
HKD		
Profit or loss	**23**	2,213
JPY		
Profit or loss	**–**	12,172

(ii) Interest rate risk

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

The Group's fair value interest rate risk relates primarily to its fixed rate pledged bank deposits, obligations under finance leases, bank borrowings and loans from a non-controlling equity owner of a subsidiary. 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 and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2015: 50 basis points) increase or decrease for variable bank and other borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates in respect of bank and other borrowings.

If interest rates had been 50 basis points (2015: 50 basis points) higher/lower and all other variable were held constant, the Group's: post-tax profit for the year ended 31 December 2016 would decrease/increase by RMB1,018,000 (2015: RMB753,000).

38. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk through its short-term investments. The directors of the Company consider the price risk is insignificant as the Group only invests in products issued by banks with good reputation.

Credit risk

As at 31 December 2016, 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 27% (2015: 25%) of total trade receivables represented amounts due from the Group's largest three (2015: three) trade debtors as at 31 December 2016. 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.

In light of the Group's net current liabilities of RMB143,896,000 (2015: RMB258,472,000) as at 31 December 2016, the Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group has available unutilised banking facilities of approximately RMB549,751,000 (2015: RMB287,780,000).

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity table

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year RMB'000	2–5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2016							
Trade and other payables	**N/A**	**641,209**	**–**	**–**	**–**	**641,209**	**641,209**
Amounts due to directors	**N/A**	**2,389**	**–**	**–**	**–**	**2,389**	**2,389**
Bank borrowings							
— fixed rate	**5.78**	**254,947**	**215,149**	**102,076**	**–**	**572,172**	**550,729**
— variable interest rate	**4.83**	**137,635**	**43,209**	**25,651**	**–**	**206,495**	**201,500**
Obligations under a finance lease							
— fixed rate	**6.12**	**425**	**425**	**3,400**	**7,853**	**12,103**	**8,168**
Other borrowings							
— fixed rate	**4.75**	**691**	**44,195**	**–**	**–**	**44,886**	**43,500**
— variable interest rate	**10.91**	**11,164**	**11,437**	**24,402**	**–**	**47,003**	**41,877**
		1,048,460	**314,415**	**155,529**	**7,853**	**1,526,257**	**1,489,372**
2015							
Trade and other payables	N/A	611,930	–	–	–	611,930	611,930
Amounts due to directors	N/A	2,620	–	–	–	2,620	2,620
Bank borrowings							
— fixed rate	4.81	464,113	242,152	–	–	706,265	691,607
— variable interest rate	4.57	54,313	37,757	41,335	–	133,405	126,616
Loans from a non-controlling equity owner of a subsidiary							
— fixed rate	1.10	13,428	13,368	104,432	36,280	167,508	161,630
Obligations under a finance lease							
— fixed rate	6.12	425	425	3,400	8,183	12,433	8,498
Other borrowings							
— fixed rate	4.35	10,033	–	–	–	10,033	10,000
— variable interest rate	10.62	21,364	16,727	24,538	–	62,629	56,730
		1,178,226	310,429	173,705	44,463	1,706,823	1,669,631

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.

38. Financial Instruments (Continued)

c. Fair value

The short-term investment of last year was measured at fair value at the end of each reporting period. The fair value of short-term investment as at 31 December 2015 was RMB10,000,000 which was determined with reference to discounted cash flow model, which is based on the expected return of the structured deposits. The fair value measurement is classified under level 2 of the fair value hierarchy.

The fair value 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 other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

39. Related Parties Transactions

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing 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:

	2016 RMB'000	2015 RMB'000
Rental expenses of property		
— Zheng Ye Leasing	**4,432**	4,432
Rental expenses of vehicles		
— Zhong Fa Equipment	–	139
Purchase of vehicles		
— Zhong Fa Equipment	–	113

Zheng Ye Leasing also provided financial guarantees to the Group to secure the banking facilities with an aggregate amount of RMB149,060,000 (2015: RMB149,060,000) obtained by the Group. As at 31 December 2016, the amount of utilized facilities is RMB30,000,000 (2015: RMB52,500,000). The respective guarantee fee paid by the Group to Zheng Ye Leasing is RMB450,000 (2015: RMB450,000).

(c) Rental deposit of RMB450,000 (2015: RMB450,000) paid to Zheng Ye Leasing has been included in trade and other receivables in the consolidated statement of financial position at 31 December 2016.

Guarantee fee payable to Zheng Ye Leasing of RMB450,000 (2015: RMB450,000) has been included in trade and other payables in the consolidated statement of financial position at 31 December 2016.

Purchase payable of RMB NIL (2015: RMB113,000) paid to Zhong Fa Equipment has been included in trade and other payables in the consolidated statement of financial position at 31 December 2016.

39. Related Parties Transactions (Continued)

(d) Related parties balances

Amounts due to directors are disclosed on note 26.

(e) Compensation of key management personnel

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

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**15,124**	15,479
Retirement benefits scheme contributions	**276**	278
	15,400	15,757

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

During the year ended 31 December 2015, Zheng Ye Packaging (Zhongshan) sold two properties to key managements amounted to RMB1,516,000. The outstanding balance at 31 December 2016 amounted to RMB1,010,000 which has been included in trade and other receivables in the consolidated statement of financial position at 31 December 2016.

40. Particulars of Principal Subsidiaries of the Company

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2016	2015	Proportion of voting power held by the Company 2016	2015	Principal activities
TYAZ International Limited ("**Zheng Ye (BVI)**")	British Virgin Islands ("**BVI**")	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	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding
正業投資有限公司 Zheng Ye Investments Limited ("**Zheng Ye Investments**")	Hong Kong	HK$1	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	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding

40. Particulars of Principal Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2016	2015	Proportion of voting power held by the Company 2016	2015	Principal activities
正業包裝(中山)有限公司 Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**")	PRC	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	HK$106,500,000	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	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Under deregistration
珠海正業包裝有限公司 Zhuhai Zheng Ye Packing Company Limited ("**Zheng Ye Packaging (Zhuhai)**")	PRC	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	RMB500,000	Ordinary	**100%**	100%	**100%**	100%	Under deregistration
鄭州正業包裝有限公司 Zhengzhou Zheng Ye Packaging Company Limited ("**Zheng Ye Packaging (Zhengzhou)**")	PRC	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	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	RMB35,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products

40. Particulars of Principal Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December		Proportion of voting power held by the Company		Principal activities
				2016	2015	**2016**	2015	
合肥華嘉再生資源有限責任公司 Hefei Hua Jia Resource Recycling Company Limited ("**Hefei Huajia**")	PRC	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 Yong Fa Paper Industry Company Limited ("**Hubei Yong Fa Paper**")	PRC	RMB50,000,000	Ordinary	**100%**	100%	**100%**	100%	Under deregistration
合肥誠業包裝有限公司 Hefei Shing Yip Packaging Company Limited ("**Hefei Shing Yip Packaging**")	PRC	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper based packaging products and printing of decorative packaging products
中山聯合鴻興造紙有限公司 Zhongshan Rengo Huang Hing Paper Manufacturing Company Limited ("**Lian He**")	PRC	USD53,660,000	Ordinary	**58.7%**	58.7%	**58.7%**	58.7%	Manufacturing and sale of paper and paper board
中山聯興造紙有限公司 Zhongshan Ren Hing Paper Manufacturing Company Limited ("**Lian Xing**")	PRC	USD27,380,900	Ordinary	**N/A**	N/A	**N/A**	N/A	Deregistered in March 2015
中山市聯發運輸有限公司 Zhongshan Lianfa Transportation Company Limited	PRC	RMB5,000,000	Ordinary	**100%***	100%*	**100%**	100%	Transportation
中山市聯發新材料有限公司 Zhongshan Lianfa New Material Company Limited	PRC	RMB1,000,000	Ordinary	**100%***	N/A	**100%**	N/A	Manufacturing and sale of high-performance material
廣州日聯融資租賃有限公司 Guangzhou Rilian Finance Leasing Company Limited	PRC	USD10,000,000	Ordinary	**100%***	N/A	**100%**	N/A	Leasing

* Except for Zheng Ye (BVI), Zhongshan Lianfa Transportation Company Limited, Zhongshan Lianfa New Material Company Limited and Guangzhou Rilian Finance Leasing Company Limited, the issued capital of all other companies is fully paid and indirectly held by the Company.

41. Details of a Non-Wholly Owned Subsidiary That Have Material Non-Controlling Interests

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2016	31/12/2015	**31/12/2016 RMB'000**	31/12/2015 RMB'000	**31/12/2016 RMB'000**	31/12/2015 RMB'000
Lian He	Zhongshan, PRC	**41.3%**	41.3%	**17,349**	1,557	**127,762**	110,413

The Group acquired 58.7% equity interests in a business which housed in two companies — Lian He and Lian Xing in 2014. Subsequent to the acquisition, the Group underwent a restructuring in which the business of Lian Xing together with its assets and liabilities were transferred to Lian He. Consequently Lian Xing was put into deregistration in 2014 and completed in March 2015.

Accordingly, the summarised financial information of Lian He for 2015 was presented on a combined basis below. The summarised financial information below represents amount before intragroup eliminations.

	2016 RMB'000	2015 RMB'000
Current assets	**288,968**	164,592
Non-current assets	**422,847**	438,964
Current liabilities	**(303,920)**	(182,937)
Non-current liabilities	**(98,545)**	(153,276)
Equity attributable to owners of the Company	**(181,588)**	(156,930)
Non-controlling interests of Lian He	**(127,762)**	(110,413)

41. Details of a Non-Wholly Owned Subsidiary That have Material Non-Controlling Interests (Continued)

	1 January 2016 to 31 December 2016 RMB'000	1 January 2015 to 31 December 2015 RMB'000
Revenue	**696,685**	399,801
Expenses	**(654,678)**	(396,032)
Profit and total comprehensive income for the year	**42,007**	3,769
Profit and total comprehensive income attributable to owners of the Company	**24,658**	2,212
Profit and total comprehensive income attributable to the non-controlling interests of Lian He	**17,349**	1,557
Profit and total comprehensive income for the year	**42,007**	3,769
Net cash inflow from operating activities	**52,356**	24,879
Net cash outflow from investing activities	**(13,035)**	(32,979)
Net cash inflow from financing activities	**(8,373)**	18,464
Net cash inflow	**30,948**	10,364

42. Statement of Financial Position of the Company

	2016 RMB'000	2015 RMB'000
Non-current Assets		
Unlisted investment in a subsidiary	**140,267**	140,267
Amounts due from subsidiaries	**–**	125,887
Property, plant and equipment	**–**	13
	140,267	266,167
Current Assets		
Bank balances and cash	**94**	55
Other receivables	**257**	241
Amounts due from subsidiaries	**154,758**	14,868
	155,109	15,164
Current Liabilities		
Other payables	**44**	66
Net Current Assets	**155,065**	15,098
Total Assets less Current Liabilities	**295,332**	281,265
Capital and Reserves		
Share capital	**41,655**	41,655
Reserves (note)	**160,709**	146,642
Share premium	**92,968**	92,968
Total Equity	**295,332**	281,265

Note:

Movement in reserves for the year ended 31 December 2016 represent the profit and total comprehensive income for the year of RMB14,067,000.

FINANCIAL SUMMARY

Consolidated results

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	1,242,371	1,445,749	1,714,190	1,807,765	**2,074,090**
Profit before tax	62,167	47,265	59,766	56,718	**124,909**
Income tax expense	(10,750)	(12,437)	(11,277)	(14,025)	**(15,911)**
Profit for the year	51,417	34,828	48,489	42,693	**108,998**
Attributable to:					
the owners of the Company	51,417	34,828	39,480	41,136	**91,649**
non-controlling interests	–	–	9,009	1,557	**17,349**
	51,417	34,828	48,489	42,693	**108,998**

Consolidated assets and liabilities

	At 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,803,516	2,064,643	2,566,508	2,499,010	**2,425,965**
Total liabilities	(1,305,744)	(1,546,443)	(1,910,061)	(1,799,870)	**(1,617,827)**
Net assets	497,772	518,200	656,447	699,140	**808,138**

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 2016.