优源
YOUYUAN

YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2268)

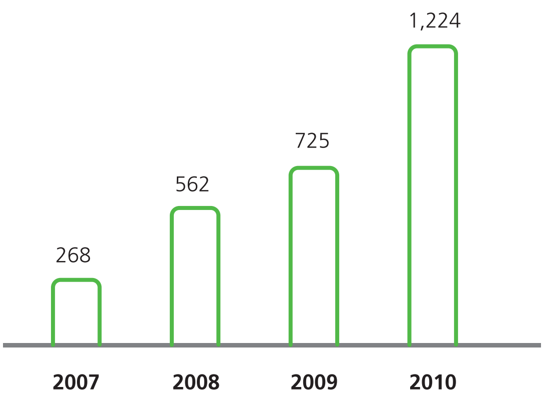
2010 Annual Report

Contents

FINANCIAL HIGHLIGHTS

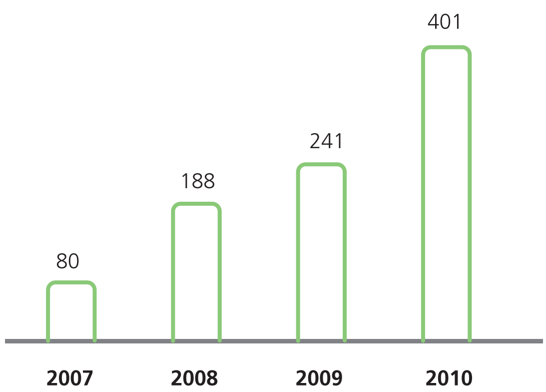
Revenue

RMB Million



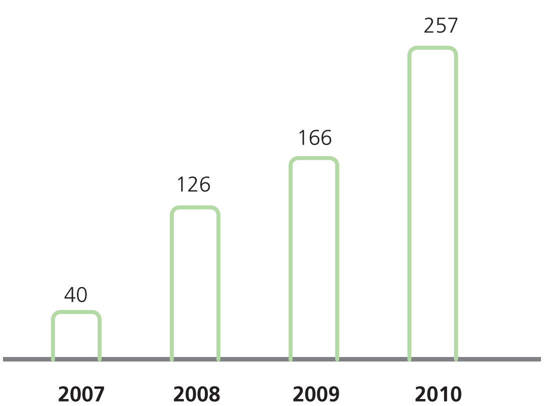
Gross Profit

RMB Million

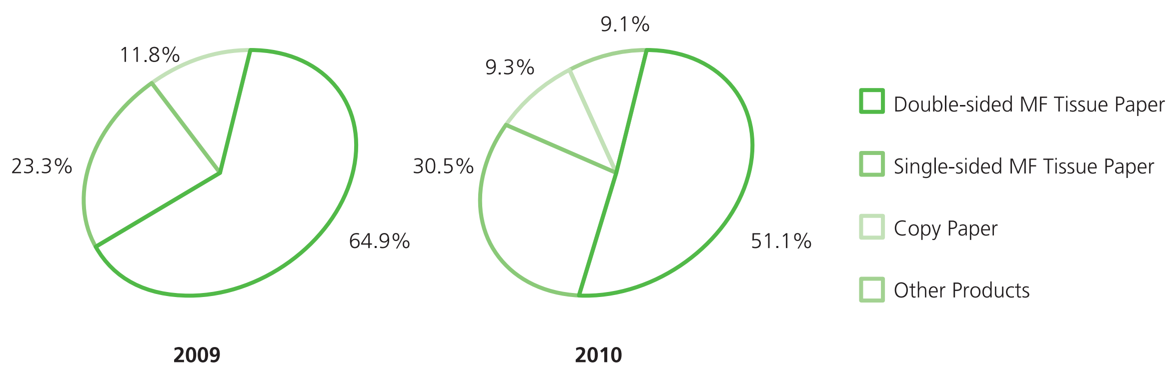


Profit and total comprehensive income attributable to owners of the Company

RMB Million



Sales analysis by categories



CORPORATE INFORMATION

Executive directors

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

Non-executive director

Mr Paul Steven Wolansky

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Company secretary

Mr Wong Yat Sum, *ACCA, HKICPA*

Authorised representatives

Mr Ke Wentuo
Mr Wong Yat Sum

Cayman Islands share registrar and transfer office

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

Hong Kong share registrar

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

Registered office

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

Headquarters in the PRC

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

Principal place of business in Hong Kong

Unit 1304, 13/F.,
Bank of America Tower
12 Harcourt Road
Central, Hong Kong

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

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

Compliance adviser

Somerley Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd.

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the first audited annual results of the Group for the year ended 31 December 2010. Our team managed to achieve remarkable growth on both revenue and profit attributable to the owners of the Company during the year and shares of our Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 May 2010.

Business Review

For the year ended 31 December 2010, the Group's revenue was approximately RMB1,224.2 million (For the year ended 31 December 2009: RMB724.7 million), representing an increase of approximately 68.9% from that of the previous year. Profit and total comprehensive income attributable to owners of the Company increased by approximately 54.6% to approximately RMB256.5 million (For the year ended 31 December 2009: RMB165.9 million). Basic earnings per share amounted to approximately RMB0.285 (For the year ended 31 December 2009: RMB0.221).

Riding on the solid business growth and outstanding financial performance of the Group, the Company successfully listed its shares on the Stock Exchange on 27 May 2010 through an initial public offering of new shares and raised net proceeds of approximately RMB510.5 million. The Group's management believes that this will not only further enhance the awareness of the Group among the public and the recognition its product brands in the market, but also help improve the corporate governance of the Group and its access to international capital markets, as well as raise the attractiveness for top talents to join the Group.

The Group was the market leader in the wrapping tissue paper market in 2010. As at 31 December 2010, the Group's production capacity for wrapping tissue paper aggregated approximately 136,800 tonnes a year. In 2011, the Group will expand its production capacities for food wrapping and single-sided machine finished ("MF") tissue paper further, a move that will strengthen the Group's leading position in the specialty paper market. The expansion will be able to cope with the increasing demand for the Group's products in China.

The Group is proud of its matured and well-developed de-inking technology that allows it to utilize recycled paper as one of the raw materials. This self-developed and unique technology helps the Group establish a robust entry barrier compared to its competitors and enjoy a solid margin. The Group's continuous emphases on research and development and quality control have constituted its core competences contributing to its successes achieved over the years. The Group will continue to improve the technology and increase the use of recycled materials in its production process, a move that helps to lower its production costs.

CHAIRMAN'S STATEMENT

Prospect and Strategy

The Board of Directors of the Company (the "Board") believes that as China's economy continues to grow, the purchasing power of the country's consumers will continue to rise. This will sustain the strong demand for consumer products in China and will in turn support the steady growth for the demand of packaging products.

We believe there are a lot of opportunities in our paper packaging industry. In early 2010, we launched new products including paper towels and ivory board, in response to the demand from our customers. Also, we offer several high-end specialty paper products including coloured singled-sided MF tissue paper and food wrapping paper. In early 2011, we started our engagement with a supplier to establish a new high-end wall-paper backing paper production line, with a designed annual production capacity of 35,000 tonnes. This production line is expected to commence production in the second quarter of 2012. High-end wall-paper backing paper will evolve as a key product with spectacular growth potential for the Group.

The Group believes that in the year 2011, our business will continue to maintain its rapid growth momentum. The various initiatives we have taken will start to produce results and create better value for our shareholders.

Acknowledgements

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

Ke Wentuo
Chairman

Hong Kong, 23 February 2011

Industry Overview

Wrapping tissue paper

In line with the Central Government's policy to develop domestic consumption into a major growth driver of the country's economy, China's retail sales grew at the fastest pace in more than two decades in 2010 as government stimulus spurred demand for consumer goods. Total retail sales rose 18.4% year-on-year to RMB15.4 trillion (US$2.3 trillion). Urban retail sales of consumer goods topped RMB13.3 trillion in 2010, up 18.8% year on year; while retail sales in rural areas rose 16.1% to RMB2.0 trillion.

Consumption accounted for 3.9% out of China's 10.0% gross domestic product growth in 2010. This level, while lower than the 4.1% reported in 2009, represented a much larger underlying value because of the enlarged base.

The growth in consumption of wrapping tissue paper is closely associated with retail sales growth. The sustainable economic development over the past few years in China has improved the living standards of the country's consumers, whose increased attention to product packaging has fuelled the demand for wrapping tissue paper due to its aesthetic appeal and ability to highlight a product's quality and visual appearance. As wrapping tissue paper has increasingly become the ideal packaging option for many consumer goods, its growth potential has expanded.

In the future, growing environmental awareness among consumers and increasingly stringent restrictions against the use of plastic packaging material are expected to promote the use of wrapping tissue paper as the packaging material for many types of merchandise and further facilitate the growth of wrapping tissue paper consumption, and therefore the market for wrapping tissue paper is expected to grow continuously.

The market trend for packaging materials development is moving towards mid-to-high end, diversified and multi-coloured products. Compared to other packaging materials such as plastics, wood, metal and glass, paper-based packaging materials offer advantages in terms of cost and production efficiency and comport better with increasingly stringent environmental regulations. This trend has established a firm footing for the wrapping tissue paper market to continue its healthy development.

Wall-paper backing paper

There is an emerging trend in consumption of high-end household products in China where rising levels of disposable income and a desire for better living conditions have been driven demand for home improvement products. The penetration rate of wall-paper is much lower in China compared to European and US markets, and high-end wall-paper backing paper is in short supply in China. Consequently, the Group is of the view that the demand for high-end wall-paper in China will experience rapid growth in the future.

In the past year, the Group with assistance from South China University of Technology, started to develop technologies for high-end wall-paper backing paper and has achieved several breakthroughs. It is now in possession of the technical capabilities required for manufacturing high-end wall-paper packing paper.

This underpins the Group's decision to invest in a new high-end wall-backing paper production line, which is expected to commence production in the second quarter of 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The revenue of the Group for the year ended 31 December 2010 was RMB1,224.2 million, representing an increase of approximately 68.9% from RMB724.7 million for the year ended 31 December 2009. Profit and total comprehensive income attributable to owners of the Company increased by approximately 54.6% from RMB165.9 million for the year ended 31 December 2009 to RMB256.5 million for the year ended 31 December 2010.

Basic earnings per share for the year ended 31 December 2010 improved to RMB0.285 per share as compared with RMB0.221 per share for the same period of 2009, based on the profit attributable to owners of the Company of RMB256.5 million (For the year ended 31 December 2009: RMB165.9 million) and the weighted average of 900,000,000 shares (For the year ended 31 December 2009: 750,000,000 shares) in issue during the reporting period. The outstanding performance in 2010 was mainly attributable to increases in both sales volume and average selling price of the Group's products, as well as the introduction of new products such as ivory boards and paper towel, albeit mitigated by the professional expenses in relation to the global offering of new shares in the Company for its listing on the Stock Exchange.

Financial Review

Revenue

The revenue of the Group increased by approximately 68.9% from RMB724.7 million for the year ended 31 December 2009 to RMB1,224.2 million for the year ended 31 December 2010.

Sales of double-sided MF tissue paper increased by approximately 32.9%, from RMB470.4 million for the year ended 31 December 2009 to RMB625.4 million for the year ended 31 December 2010, primarily due to an increase in demand for the products, increases in average selling prices and the increase in production capacity of the Group.

Sales of single-sided MF tissue paper increased by approximately 121.1%, from RMB168.6 million for the year ended 31 December 2009 to RMB372.8 million for the year ended 31 December 2010, primarily due to commencement of operation of two new production lines in early 2010, each with approximately 9,000 tonnes in annual production capacity.

Sales of copy paper increased by approximately 32.2%, from RMB85.7 million for the year ended 31 December 2009 to RMB113.3 million for the year ended 31 December 2010, primarily due to an increase in demand for the products.

Sales of paper towel and ivory boards, which were newly launched in early 2010, contributed revenues of RMB46.0 million and RMB66.5 million respectively for year ended 31 December 2010, in aggregate represented 9.1% of total revenue for the year ended 31 December 2010.

In volume terms the Group's total sales volume for the year 2010 was approximately 161,000 tonnes, of which double-sided MF tissue paper comprised 77,200 tonnes, single-sided MF tissue paper 49,300 tonnes, copy paper 15,600 tonnes, paper towels 7,600 tonnes and ivory board 11,300 tonnes. The Group sold 65,800 tonnes of doubled-sized MF tissue paper, 26,800 tonnes of single-sided MF tissue paper and 13,400 tonnes of copy paper in 2009.

The average selling prices per tonnes of double-sided MF tissue paper, single-sided MF tissue paper and copy paper were RMB8,105, RMB7,567, and RMB7,272 respectively in 2010, up from RMB7,144, RMB6,281 and RMB6,412 respectively in 2009.

Gross profit

Gross profit of the Group increased from RMB240.6 million for the year ended 31 December 2009 to RMB401.0 million for the year ended 31 December 2010.

Overall gross profit margin of the Group narrowed from 33.1% for the year ended 31 December 2009 to 32.7% for the year ended 31 December 2010. The slightly lower overall average gross profit margin was mainly due to a change of sales mix of the Group's products. The gross profit margin of paper towel and ivory boards were approximately 23.3% and 17.0% respectively for the year ended 31 December 2010, which off-set the improvements in gross profit margins of double-sided and single-sided MF tissue paper.

Breaking down by products, double-sided MF tissue paper and single sided MF tissue paper saw their gross margins improved to 34.3% and 34.4% respectively in 2010, up from 32.8% and 34.2% respectively in 2009 due to increasing use of recycled raw materials. Copy paper saw its gross margin edged to 32.0% in 2010 from 33.6% in 2009. The gross margins of the two newly launched products paper towel and ivory board were 23.3% and 17.0% respectively as the production facilities had yet to reach their optimal levels.

Wood pulp, reclaim pulp, de-inked pulp, recycled white paper comprised 44%, 20%, 19% and 12% respectively of the Group's total raw material used for the year by volume, and 55%, 16%, 15% and 7% respectively by raw materials costs.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net gain of RMB2.4 million for the year ended 31 December 2009 to a net loss of RMB5.8 million for the year ended 31 December 2010, mainly due to a net foreign exchange loss of RMB9.8 million resulting from the continuous appreciation of RMB against other currencies during the year, off-setting a government grant of RMB3.3 million as an award for the successful listing of the Company on the Stock Exchange in the year ended 31 December 2010.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 42.5% from RMB4.0 million for the year ended 31 December 2009 to RMB5.7 million for the year ended 31 December 2010, representing approximately 0.6% and 0.5% of the Group's turnover, respectively. The increases were primarily due to increases in marketing resources allocated to promotion activities.

Administrative expenses

Administrative expenses of the Group increased by approximately 60.6% from RMB32.0 million for the year ended 31 December 2009 to RMB51.4 million for the year ended 31 December 2010, representing approximately 4.4% and 4.1% of the Group's turnover, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, release of prepaid lease payments, employee benefits expenses and professional fees for compliance as a listed company.

Listing expenses

Listing expenses mainly represented professional fees and other expenses related to the listing of the Shares of the Company on the Stock Exchange.

Finance costs

Finance costs of the Group increased by approximately 21.9% from RMB18.2 million for the year ended 31 December 2009 to RMB22.2 million for the year ended 31 December 2010, primarily due to an increase in bank borrowings throughout the year ended 31 December 2010.

Interest rates of bank loans were at variable rates ranging from 4.78% to 5.18% for the year ended 31 December 2010, compared with 4.78% to 4.86% for the year ended 31 December 2009.

Taxation

Tax charge increased by approximately 193.8% from RMB13.0 million for the year ended 31 December 2009 to RMB38.2 million for the year ended 31 December 2010, primarily due to a higher tax rate applied as a result of expiry of the preferential tax treatment under the Enterprise Income Tax Law. Two of the Group's subsidiaries operating in China, namely Xiyuan Paper Co., Ltd. and Huaxiang Paper Industry Co., Ltd., were subject to an income tax rate of 12.5% (50% reduced from Enterprise Income Tax of 25%) effective since 2010. Moreover, Youlanfa Paper Co., Ltd. Fujian obtained a high and new technology enterprise certificate during the year and was since subject to a preferential tax rate of 15% for three year period. The preferential tax was retrospectively applied from 2009, an overprovision of approximately RMB5.2 million of income tax for 2009 had been credited in profit and loss during the year. As a result, the Group's effective tax rates for the year ended 31 December 2009 and 2010 were 7.1% and 12.9%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB165.9 million for the year ended 31 December 2009 to RMB256.5 million for the year ended 31 December 2010. The ratio of profit attributable to owners the Company to revenue narrowed from approximately 22.8% for the year ended 31 December 2009 to approximately 20.9% for the year ended 31 December 2010 mainly due to the professional fees of RMB20.9 million in relation to the initial public offering charged during the year, the effect of expiry of the preferential tax treatment for two subsidiaries and the professional fees for compliance as a listed company.

Liquidity and Capital Resources

Cash flow

For the year ended 31 December 2010, net cash of the Company increased by RMB376.8 million. Sums of RMB263.2 million and RMB588.4 million were generated from operating activities and financing activities respectively, while outflows of RMB474.8 million on investing activities were recorded for the period.

Net cash outflow from investing activities were primarily payments for acquisitions of properties, plant and equipment of RMB455.2 million.

Inventories

The Group's inventories increased to RMB146.4 million as at 31 December 2010 (As at 31 December 2009: RMB110.2 million), primarily due to an increase in raw materials.

The Group's inventories comprise raw materials of wood pulp and scrapped paper for de-inked pulp, packaging materials, works-in-progress, finished goods and merchandises for sale. As at 31 December 2010, the inventory turnover cycle was approximately 56.8 days (As at 31 December 2009: 51.9 days). The turnover cycle lengthened as compared with the year ended 31 December 2009, primarily due to an increase in stock level during the year.

Trade receivables

As at 31 December 2010, the Group's trade receivables amounted to RMB244.4 million (As at 31 December 2009: RMB134.0 million). During the year 2010, distributors were generally granted a credit term of 60 days. The turnover cycle for trade receivables shortened to 56.4 days (As at 31 December 2009: 57.0 days) primarily due to better credit control and more efficient debt collection.

Trade payables

As at 31 December 2010, the Group's trade and bills payables amounted to RMB149.5 million (As at 31 December 2009: RMB80.7 million). During the year 2010, the credit terms provided by suppliers ranged from 30 to 180 days. The turnover cycle for trade and bills payables shortened to 51.0 days (As at 31 December 2009: 83.3 days), the Group's arranged faster payments with its suppliers in order to obtain more favourable prices in light of rising wood pulp prices during the year.

Borrowings

As at 31 December 2010, the Group's bank loan balance amounted to RMB553.6 million, of which RMB264.5 million will be due for repayment within one year (At 31 December 2009: RMB523.0 million, of which RMB 182.8 million will be due for repayment within one year) and available unutilised credit facilities stood at RMB265.3 million (As at 31 December 2009: RMB120.0 million).

As at 31 December 2010, the Group's bank borrowings of approximately RMB143.0 million carried fixed interest rates (As at 31 December 2009: RMB173.0 million).

As at 31 December 2010, the Group's gross gearing ratio was approximately 24.3% (As at 31 December 2009: 40.0%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' equity was 6.0% (As at 31 December 2009: 78.6%).

Pledge of assets

As at 31 December 2010, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB470.8 million and RMB228.3 million respectively (As at 31 December 2009: RMB285.2 million and RMB138.0 million respectively) as collaterals backing the credit facilities granted to the Group.

Capital expenditure

During the year ended 31 December 2010, the Group invested approximately RMB395.2 million (For the year ended 31 December 2009: approximately RMB264.4 million) in construction of production facilities and equipment and acquisition of land use rights.

Capital commitments

As at 31 December 2010, the Group's capital commitments, including contracted and authorised, were approximately RMB464.9 million (As at 31 December 2009: RMB83.4 million), which related to acquisitions of properties, plants and equipment and land use rights.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board does not recommend payment of any final dividend for the year ended 31 December 2010 (For the year ended 31 December 2009: Nil).

Human Resources Management

As at 31 December 2010, the Group employed 1,815 staff (For the year ended 31 December 2009: 1,459) and the total remuneration for the year ended 31 December 2010 amounted to approximately RMB38.6 million (For the year ended 31 December 2009: RMB28.0 million).

The Group's remuneration package is determined with reference to the experience and qualifications of the individual employee and general market conditions. Bonus is linked to the Group's financial results as well as individual performance. The Group also ensures that all employees are provided with adequate training and continued professional opportunities according to their needs.

Prospects

Looking forward, domestic consumption is starting to take root as a major economic growth driver in China. Domestic consumption as a percentage of the country's GDP is gradually picking up. This will continue to drive the rapid development of the market for wrapping tissue paper, which will in turn spur the demand for MF tissue paper which is mainly used in packaging of consumer products of different kinds across the whole spectrum of different price brackets. The Group is well-positioned to benefit from this rapid development because the high quality wrapping tissue paper and specialty paper products it manufactures are still in acute shortage.

In addition, the Group is among one of the few paper manufacturers capable of making de-inked pulp suitable for the production of wrapping tissue paper. It has a well-articulated plan to expand its de-inking pulp production capacity and increase the use of de-inked pulp, reclaimed pulp and recycled white paper in the production of all its products. This will help the Group achieve better control of its production costs than its competitors and also further enhance the environmental friendly nature of the Group's operation.

With regards to new businesses, the Group announced in January this year that it will invest in a new high-end wall-paper backing paper production line of an annual production capacity of 35,000 tons. Production is expected to commence in the second quarter of 2012.

The Group considers that this investment in a wall-paper backing paper production line is consistent with the Group's business strategy and it is the right timing to make such an investment. The Group has developed better competitive advantages in the specialty paper industry over the years in terms of production technology and cost control and the Group believes that the establishment of this new wall-paper backing paper production line will help tap into a new market and create a new source of income.

According to the Group's production capacity expansion plan, its total production capacity will increase to approximately 84,000 tonnes by the end of 2011 from 184,700 tonnes as at 31 December 2010 to 268,700 tonnes as at 31 December 2011. The Group believes that it is well-positioned to leverage its leading market position as well as strong production capability to benefit from the projected sustaining growth of the market of wrapping tissue paper and other specialty paper in China.

Executive Directors

Mr Ke Wentuo（柯文托）, aged 53, is an Executive Director, the founder of our Group and Chairman of our Company. He is primarily responsible for our overall strategies, planning and business development. Mr Ke graduated and obtained a college diploma from Fujian College of Forestry*（福建林學院）(now part of Fujian Agriculture and Forestry University*（福建農林大學））in 1999, majoring in paper manufacturing. Mr Ke has more than 15 years of experience in paper manufacturing. Mr Ke has been a vice-president of the Fujian Paper Association*(福建省紙業協會)since December 1999. Mr Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee*（晉江市人民代表大會常務委員會）since January 2004, and has been a committee member of the Tenth Quanzhou Committee of the PRC People's Political Consultative Conference*（中國人民政治協商會議第十屆泉州委員會）since December 2009. Mr Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making*(中國造紙協會製漿造紙行業優秀企業家）in 2009. He was also named as a model entrepreneur in the light industry segment*（全國輕工行業勞動模範）in December 2007. In addition, Mr Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality*（泉州市慈善家）in 2006, appointed as an honorary president of Quanzhou Charity Association*（泉州市慈善總會永遠名譽會長）in September 2006 and as an honorary president of Jinjiang Charity Association*（晉江市慈善總會永遠榮譽會長）in December 2007.

Mr Ke Jixiong（柯吉熊）, aged 27, is an Executive Director and Chief Executive Officer of our Company. Mr Ke Jixiong is the son of Mr Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distance learning program at Fujian Normal University*（福建師範大學）majoring in business administration in July 2007. In 2004, Mr Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award*(晉江市第三屆優秀青年企業家）. He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference*（中國人民政治協商會議福建省晉江市委員會）. He plays an instrumental role in the formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped to maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and our production plans, are met, such as introducing de-inking facilities to produce de-inked pulp in house, and negotiated with an independent recycling company to exclusively supply the Group with reclaimed pulp.

Mr Cao Xu（曹旭）, aged 46, is an Executive Director and is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and obtained a college diploma from the University of Mechanical Industry Anshan*(鞍山市機械工業職工大學)majoring in mechanical engineering. From 1988 to 1997, Mr Cao worked in Metallurgical Department No. 3 Corporation*（冶金工業部第三冶金建設公司）, a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr Zhang Guoduan（張國端）, aged 47, is an Executive Director. In 1998, Mr Zhang completed an 18-month course at Xiamen（廈門大學）majoring in economics and management. Mr Zhang has 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group*（福建鐃山紙業集團）as deputy general manager.

* for identification only

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr Paul Steven Wolansky, aged 54, is a Non-executive Director. Mr Wolansky graduated from Amherst College in 1978 with a Bachelor of Arts degree and subsequently obtained a Juris Doctor degree from Harvard Law School in 1981. Mr Wolansky is admitted to practice law as a member of the New York State Bar Association. Mr Wolansky has over 19 years of experience in fund management and direct investment. Mr Wolansky is currently a non-executive director of two companies listed on the main board of The Stock Exchange of Hong Kong Ltd.: China Aoyuan Property Group Limited (stock code: 3883) since 2006 and Centron Telecom International Holding Limited (stock code: 1155) since 2006.

Mr Wolansky was also formerly a non-executive director of CNinsure Inc., a company listed on NASDAQ, from June 2004 to May 2008 and a non-executive director of Longtop Financial Technologies Limited, a company listed on the New York Stock Exchange from June 2007 to June 2009.

Independent non-executive Directors

Prof. Zhang Daopei(張道沛), aged 74, is an Independent Non-executive Director. Prof. Zhang graduated from Dongbei Industrial College*（東北工學院）(now known as Northeastern University*（東北大學）) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University*（河南大學）. He was also a professor at Fujian College of Forestry*（福建林學院）(now part of Fujian Agriculture and Forestry University*（福建農林大學）) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry*（中國造紙學會）since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry*（中國造紙學會）since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry*(福建省造紙學會)since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry*（福建省造紙學會）from 1994 to 2007.

Prof. Chen Lihui（陳禮輝）, aged 44, is an Independent Non-executive Director. Prof. Chen graduated from Fuzhou University*（福州大學）with a bachelor of engineering majoring in machine manufacturing processes and equipment in 1987. He then obtained his master′s degree in 1996 and his doctorate degree in 2003 majoring in pulp and paper engineering from South China University of Technology*（華南理工大學）. From July 1987 to October 2000, Prof. Chen was with the Fujian College of Forestry*（福建林學院）(now part of Fujian Agriculture and Forestry University*（福建農林大學）), working at various capacities as an assistant professor, lecturer, associate professor and instructor for master′s degree research students. Since November 2000, Prof. Chen was with the Material Engineering College*（材料工程學院）of the Fujian Agriculture and Forestry University*(福建農林大學), working at various times as a professor, instructor of doctorate and master degrees and dean of the college. Prof. Chen was awarded the Fujian Young Scientist Award*(福建青年科技獎)in 2006 for his outstanding achievements in technology, and has won awards for numerous research projects in China, including the Fujian Technology Award*(福建省科學技術獎）in December 2003, 2004, 2005 and February 2009, and the Fuzhou Technological Advancement Award*(福州市科學技術進步獎）in September 2008.

* for identification only

Mr Chow Kwok Wai（周國偉）, aged 44, is an Independent Non-executive Director. Mr Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr Chow is also a registered Certified Tax Adviser（註冊稅務師）of the TIHK effective since 7 September 2010. He has over 20 years' of experience in accounting, financial management and corporate finance. He is an executive director of Silver Grant International Industries Limited (stock code: 171), a non-executive director of Cinda International Holdings Limited (stock code: 111) and an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. (stock code: 2005), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Ltd.

Senior management

Mr Lin Wenfeng（林文峰）, aged 41, is the assistant to our Chairman, and is responsible for assisting our Chairman in the administration and management of our Group. Mr Lin graduated with a college diploma from Anhui University of Finance & Economics*（安徽財經大學）majoring in finance and accounting in 2005 and graduated from Anhui University*（安徽大學）, majoring in law in 2008. Prior to joining our Group, Mr Lin was with Bank of China Jinjiang Branch between October 1988 and May 2007, where he was responsible for the bank's credit management, credit limit management and overall branch management.

Mr Wong Yat Sum（黃一心）, aged 34, is our Chief Financial officer and our Company Secretary and is responsible for the budget, financial management and control of our Group. Mr Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. Prior to joining our Group, Mr Wong was a financial controller for A&W (Shanghai) Woods Co., Ltd., a wood-flooring company in Shanghai, China from 2007 to 2009, where he was responsible for finance, treasury, business planning and risk management.

Mr Liao Chunxiang（廖春祥）, aged 46, is Deputy General Manager of Huaxiang and is responsible for managing the manufacturing processes of Huaxiang. As Mr Liao is also a member of our research and development centre, he participates in our research and development projects. Mr Liao obtained his business administration accreditation from Fujian Economic Management School for Officials*（福建經濟管理幹部學院）in 1998. Prior to joining our Group, Mr Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.*（福建鐃山紙業集團有限公司）as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr Ke Hongchi（柯鴻池）, aged 36, is Sales Manager of our Group and is responsible for business development and sales. Mr Ke Hongchi graduated from Jinjiang County Professional School*（晉江縣業學校）(now known as Jinjiang Professional Technical Secondary School*)（晉江職業中專學校）in 1991 and is responsible for sales development and the management of the sales team of Youlanfa. Since the establishment of Xiyuan and Huaxiang in 2006, he has also been responsible for overseeing the sales development and managing the sales team of Xiyuan and Huaxiang.

* for identification only

DIRECTORS AND SENIOR MANAGEMENT

Mr Chen Changxing（陳長興）, aged 47, is Manager of our research and development centre and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr Chen graduated with a college diploma from Open University of Fujian*（福建廣播電視大學）, majoring in electronic technique applications. Mr Chen also graduated from Fujian Light Industry School*（福建輕工業學校）in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr Chen worked in Fujian Pulp Quality Supervision and Testing Station*（福建省漿紙質量監督檢驗站）between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr Shuai Liangming（帥亮明）, aged 46, is Quality Control Manager of Huaxiang and is responsible for the quality control of Huaxiang. As Mr Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr Shuai graduated with a college diploma from Minfeng Paper Factory Workers University*（民豐造紙廠職工大學）, majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC*(中共中央黨校), majoring in law in 2002. Mr Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr Shuai worked in Dongguan Baoli Paper Factory*(東莞市寶力造紙廠)between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr Wu Xiaoxi（吳曉曦）, aged 49, is Head of Electrical Engineering Department of Huaxiang and is responsible for the management of matters relating to electrical engineering of Huaxiang. As Mr Wu is also member of our research and development centre, he also participates in our research and development projects. Mr Wu graduated from Fuzhou University*(福州大學)in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr Wu worked in Jianning Jiaoheban Factory*（建寧縣膠合板廠）between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Mr Chen Taibin（陳太斌）, aged 33, is Manager of Human Resources Department of Youlanfa and is responsible for hiring and training in Youlanfa. Mr Chen graduated and obtained a college diploma from Fujian Normal School*(福建師範專科學校）in 1995 majoring in chemistry. Prior to joining our Group, Mr Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.*（福建省晉江三源食品實業有限公司）as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms Yan Yahong（顏雅紅）, aged 27, is Deputy Manager of our Purchasing Department and is responsible for raw materials purchasing of our Group. Ms Yan graduated from Sun Yat-sen University*(中山大學）with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms Yan worked in Jinjiang Panpan Food Co., Ltd.*（晉江盼盼食品有限公司）as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

*	for identification only

Code of Corporate Governance Practice

Our Company has adopted the code provisions on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors consider that since the listing of the Shares on the Main Board of the Stock Exchange and up to 31 December 2010, our Company has complied with all the code provisions as set out in the Code.

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

Set out below is a detailed discussion of the corporate governance practices adopted and observed by our Company from the Listing Date up to 31 December 2010 ("Review Period").

Model Code for Securities Transactions

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

Board of Directors

(i) Board Composition

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

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

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

Non-executive director
Mr Paul Steven Wolansky

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

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

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

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

(ii) Board Functions and Duties

The principal functions and duties conferred on the Board include:

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

(iii) Board Meetings

During the Review Period, there was four board meetings held, at which the Directors approved, among other things, the interim results of the Group for the six months ended 30 June 2010.

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

(iv) Attendance Record

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

	Attendance at meeting
Executive directors	
Mr Ke Wentuo (Chairman)	4/4
Mr Ke Jixiong (Chief Executive Officer)	4/4
Mr Cao Xu	4/4
Mr Zhang Guoduan	4/4
Non-executive director	
Mr Paul Steven Wolansky	2/4
Independent non-executive directors	
Prof. Zhang Daopei	2/4
Prof. Chen Lihui	2/4
Mr Chow Kwok Wai	2/4

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Mr Chow is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has over 16 years of experience in accounting, financial management and corporate finance.

The Company has also received a written annual confirmation from each of the independent non-executive Directors in respect of their independence. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

(vi) Appointment and Re-election of Directors

According to the articles of association of the Company, at each annual general meeting one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election.

Mr Cao Xu, Mr Zhang Guoduan and Mr Paul Steven Wolansky will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

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

(vii) Directors' Remuneration

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

Before the listing of the Company, the Directors had been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules.

Remuneration Committee

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

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

Emoluments Policy

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

During the Review Period, the remuneration committee has held two meetings. The members of remuneration committee have reviewed and discussed the policy for the remuneration of executive directors, the performance of executive directors during the Review Period.

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

	Attendance at meeting
Mr Ke Wentuo (Chairman)	2/2
Prof. Zhang Daopei	2/2
Prof. Chen Lihui	2/2

Audit Committee

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

During the Review Period, the audit committee has held one meeting and subsequently on 23 February 2011, the audit committee also held on meeting. The members of audit committee have reviewed and discussed with the external auditors of the Company of the Group's audited consolidated financial statements for the six months ended 30 June 2010 and for the year ended 31 December 2010, who were of the opinion that such statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

The following is the attendance record of the committee meeting held by the audit committee during the Review Period:

	Attendance at meeting
Prof. Zhang Daopei	1/1
Prof. Chen Lihui	1/1
Mr Chow Kwok Wai	1/1

Auditor's Remuneration

For the year ended 31 December 2010, apart from the provisions of annual audit services, the external auditor of our Group, Deloitte Touche Tohmatsu, was also the reporting accountants of our Company in relation to the listing. For the year ended 31 December 2010, the total fee paid/payable in respect of audit services provided by the external auditor of our Group is set out below:

	For the year ended 31 December 2010 RMB'000
Audit services	
Audit services	2,600
Reporting accountants in relation to the listing	2,342

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

Director's Responsibility on the Financial Statements

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

Internal Control

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

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

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

Our Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended 31 December 2010, our Board considered that the internal control system of our Group is adequate and effective and our Company has complied with the code provisions on internal control of the Code.

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries for the year ended 31 December 2010.

Corporate Reorganisation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 October 2009, under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through the corporate reorganisation undertaken in preparation of listing, our Company became the holding company of the Group on 14 January 2010.

Details of the reorganisation are set out in the section headed "History and Corporate Structure" on page 91 to 108 of the prospectus of our Company dated 14 May 2010 (the "Prospectus").

The shares of our Company (the "Shares") are listed on the Main Board of the Stock Exchange on 27 May 2010 (the "Listing Date").

Principal Activities

The principal activity of our Company is investment holding. Particulars of the principal subsidiaries of our Company are shown on page 78 of this report.

Results and Appropriations

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 32 of this report.

The Board has not recommended a final dividend for the year ended 31 December 2010 (For the year ended 31 December 2009: Nil) and propose that the profit for the year be retained.

Reserves

Movements in reserves of the Group during the year ended 31 December 2010 are set out in pages 34 to 35 of this report.

As at 31 December 2010, the reserves of our Group available for distribution to shareholders amounted to RMB563,869,000 (As at 31 December 2009: RMB336,526,000).

Donation

During the year ended 31 December 2010, the Group made charitable donations amounting to RMB880,000 (For the year ended 31 December 2009: RMB5,000).

Property, Plant and Equipment

Movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

REPORT OF THE DIRECTORS

Share Capital

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

Directors

The list of Directors during the year is set out in the section headed “Directors and senior management” on pages 13 to 15 of this report.

Financial Summary

A financial summary of the Group for the last four years are set out on page 80 of this report.

Borrowings

Details of bank borrowings of the Group as at 31 December 2010 are set out in note 23 to the consolidated financial statements.

Share Option Scheme

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

(1) The purpose of the Scheme

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

(2) Who may join

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

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

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

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

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

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

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

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

(3) Maximum number of Shares

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

(4) Maximum entitlement of each participant

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

(5) Offer period

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

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

(6) Minimum holding period, vesting and performance target

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

(7) Amount payable for Options

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

(8) Subscription Price

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

(a) the nominal value of a Share;

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

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

(9) Life of Share Option Scheme

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

As at 31 December 2010, no options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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

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

As at 31 December 2010, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Ke Wentuo	Interest in controlled corporation and interest of spouse[1]	573,750,000	57.38%
Mr Ke Jixiong	Interest in controlled corporation[2]	31,125,000	3.11%
Mr Paul Steven Wolansky	Interest in controlled corporation[3]	88,350,000	8.84%

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

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

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

Note 2: The interest in 31,125,000 Shares refer to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

Note 3: Mr Paul Steven Wolansky is deemed to be interested in the 88,350,000 Shares held by Cathay Special Paper Limited. Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership. Cathay Master GP, Ltd. is the general partner of Cathay Capital Holdings II, L.P., in which Mr Paul Steven Wolansky has an effective control of 45%. Pursuant to Part XV of the SFO, Cathay Master GP, Ltd. has de facto control and thus Mr Paul Steven Wolansky is deemed to be interested in the same block of Shares.

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2010, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

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

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

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

Note 3: Mr Paul Steven Wolansky is deemed to be interested in the 88,350,000 Shares held by Cathay Special Paper Limited. Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership. Cathay Master GP, Ltd. is the general partner of Cathay Capital Holdings II, L.P., in which Mr Paul Steven Wolansky has an effective control of 45%. Pursuant to Part XV of the SFO, Cathay Master GP, Ltd. has de facto control and thus Mr Paul Steven Wolansky is deemed to be interested in the same block of Shares.

Except as disclosed above, as at 31 December 2010, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

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

Contracts of Significance

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

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

Directors' Interests in Competing Business

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

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 6.4% (2009: 6.0%) and 25.3% (2009: 23.3%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 37.3% (2009: 24.3%) and 79.5% (2009: 57.2%) of the Group's total purchases respectively.

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

Deed of Non-competition

The controlling shareholder has confirmed to the Company of his compliance with the non-compete undertakings provided to the Company under the Deed of Non-competition (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the controlling shareholder.

Pre-emptive Rights

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

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

Since the Listing Date and up to 31 December 2010, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

Use of Net Proceeds from Initial Public Offering

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

	Intended use of proceeds stated in the Prospectus	Amount of net proceeds RMB'million	Proceeds utilized at of 31 Dec 2010 RMB'million
Purchase of machinery and equipment relating to new production facilities	45%	229.7	106.4
Construction of new plant and supporting facilities to support production of new products and increases to production capacity	40%	204.2	145.8
Working capital and other general corporate purposes	10%	51.1	51.1
Marketing expenses for growing our existing business in the PRC	5%	25.5	1.3
Total	100%	510.5	304.6

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float since the Listing Date.

Auditor

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 23 February 2011

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 79, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 February 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue	8	**1,224,297**	724,793
Cost of sales		**(823,211)**	(484,141)
Gross profit		**401,086**	240,652
Other income and other gains and losses	10	**(5,811)**	2,421
Selling and distribution expenses		**(5,722)**	(4,066)
Administrative expenses		**(51,498)**	(32,062)
Listing expenses		**(20,952)**	(4,956)
Finance costs	11	**(22,271)**	(18,219)
Profit before tax	12	**294,832**	183,770
Income tax expense	13	**(38,283)**	(13,093)
Profit and total comprehensive income for the year		**256,549**	170,677
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**256,549**	165,941
Non-controlling interests		**—**	4,736
		256,549	170,677
		RMB	RMB
Earnings per share - Basic	15	**0.285**	0.221

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,005,940**	621,646
Prepaid lease payments	17	**253,562**	259,311
Investment properties	18	**—**	21,098
Deposits paid for acquisition of property, plant and equipment		**108,540**	42,957
Deposits paid for acquisition of land use right		**22,155**	—
		1,390,197	945,012
CURRENT ASSETS			
Inventories	19	**146,496**	110,282
Trade and other receivables and prepayments	20	**264,329**	154,580
Prepaid lease payments	17	**5,770**	5,770
Pledged bank deposits	21	**1,855**	2,860
Bank balances and cash	21	**463,634**	86,825
		882,084	360,317
CURRENT LIABILITIES			
Trade and other payables	22	**209,429**	118,326
Amount due to a related party	26	**—**	8,584
Amount due to ultimate controlling shareholder	26	**—**	1,649
Amount due to immediate holding company	26	**—**	95,605
Income tax payables		**12,952**	3,318
Bank borrowings	23	**264,560**	182,820
		486,941	410,302
NET CURRENT ASSETS (LIABILITIES)		**395,143**	(49,985)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,785,340**	895,027
NON-CURRENT LIABILITY			
Bank borrowings	23	**289,120**	340,180
		1,496,220	554,847
CAPITAL AND RESERVES			
Share capital	24	**87,680**	—
Reserves		**1,408,540**	554,847
TOTAL EQUITY		**1,496,220**	554,847

The consolidated financial statements on pages 32 to 79 were approved and authorised for issue by the Board of Directors on 23 February 2011 and are signed on its behalf by:

Ke Wentuo
DIRECTOR

Ke Jixiong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Accumulated profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	10	—	—	65,380	21,049	188,367	274,806	19,351	294,157
Profit and total comprehensive income for the year	—	—	—	—	—	165,941	165,941	4,736	170,677
Acquisition of additional interests in subsidiaries in the People's Republic of China (the "PRC")	—	—	—	2,477	—	—	2,477	(24,087)	(21,610)
Arising on group reorganisation	(10)	—	—	10	—	—	—	—	—
Deemed contribution from a shareholder (Note c)	—	—	111,623	—	—	—	111,623	—	111,623
Appropriation	—	—	—	—	17,782	(17,782)	—	—	—
At 31 December 2009 and 1 January 2010	—	—	111,623	67,867	38,831	336,526	554,847	—	554,847
Arising from group reorganisation	1	—	—	(1)	—	—	—	—	—
Profit and total comprehensive income for the year	—	—	—	—	—	256,549	256,549	—	256,549
Capitalisation issue (Note 24)	65,759	(65,759)	—	—	—	—	—	—	—
Issue of new shares (Note 24)	21,920	543,617	—	—	—	—	565,537	—	565,537
Share issue expenses	—	(26,389)	—	—	—	—	(26,389)	—	(26,389)
Deemed contribution from holding company (Note d)	—	—	145,676	—	—	—	145,676	—	145,676
Appropriation	—	—	—	—	29,206	(29,206)	—	—	—
At 31 December 2010	**87,680**	**451,469**	**257,299**	**67,866**	**68,037**	**563,869**	**1,496,220**	**—**	**1,496,220**

Note a: Special reserve comprises of:

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

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

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

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

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

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

Note c: Pursuant to the agreement dated 30 September 2009, Mr Ke Wen Tuo, the ultimate controlling shareholder of the Group, waived the amount due to him of RMB111,623,000. Such amount was recorded in capital reserve as deemed contribution from a shareholder (see Note 27).

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

Pursuant to the agreement dated 5 May 2010, Smart Port, the immediate holding company of the Group, waived the amount due to Smart Port of RMB139,986,000. Such amount is recorded in capital reserve as deemed contribution from a shareholder (see Note 27).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**294,832**	183,770
Adjustments for:		
Interest income	**(1,375)**	(1,006)
Finance costs	**22,271**	18,219
Loss on disposal of property, plant and equipment	**502**	123
Share-based payment expense	**4,268**	—
Depreciation of property, plant and equipment	**31,206**	22,895
Depreciation of investment properties	**228**	913
Release of prepaid lease payments	**5,749**	3,695
(Reversal of) allowance for obsolete inventories	**(179)**	179
Operating cash flows before movements in working capital	**357,502**	228,788
Increase in inventories	**(36,035)**	(82,958)
Increase in trade and other receivables and prepayments	**(112,877)**	(25,376)
Decrease in amount due from a related party	**—**	562
Increase (decrease) in trade and other payables	**91,871**	(53,288)
(Decrease) increase in amount due to a related party	**(8,584)**	8,584
Cash generated from operations	**291,877**	76,312
Income taxes paid	**(28,649)**	(12,753)
NET CASH FROM OPERATING ACTIVITIES	**263,228**	63,559
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(455,275)**	(120,550)
Payments for prepaid lease payments	**(22,155)**	(153,016)
Decrease in pledged bank deposits	**1,005**	49,966
Interest received	**1,375**	1,006
Proceeds from disposal of property, plant and equipment	**152**	80
Consideration paid for acquisition of additional interests in subsidiaries	**—**	(21,610)
NET CASH USED IN INVESTING ACTIVITIES	**(474,898)**	(244,124)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**565,537**	—
New bank borrowings raised	**228,000**	680,500
Advance from immediate holding company	**44,381**	95,605
Repayments to related parties	**—**	(44,679)
Repayments of bank borrowings	**(197,320)**	(468,500)
Interest paid	**(27,448)**	(22,733)
Payments of transaction costs attributable to issue of new shares	**(23,022)**	—
(Repayment to) advance from ultimate controlling shareholder	**(1,649)**	21,355
NET CASH FROM FINANCING ACTIVITIES	**588,479**	261,548
NET INCREASE IN CASH AND CASH EQUIVALENTS	**376,809**	80,983
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**86,825**	5,842
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**463,634**	86,825

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port Holdings Limited (incorporated in the British Virgin Islands) and its ultimate controlling shareholder is Mr Ke Wen Tuo ("Mr Ke"). The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, the Cayman Islands and its principal place of business in Hong Kong is Unit 04, 13/F., Bank of America Tower, No. 12 Harcourt Road, Central, Hong Kong while its principal place of business in the People's Republic of China ("the PRC") is Xibin Industrial Zone, Jinjiang City, Fujian Province, the PRC.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 30.

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

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

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

Accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Xi Yuan BVI. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the year ended 31 December 2009 and 2010 have been prepared as if the current group structure had been in existence throughout the periods, or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period. The consolidated statement of financial position of the Group as at 31 December 2009 has been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at that date.

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

New and revised Standards and Interpretations applied in the current year

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

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
International Accounting Standard ("IAS") 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC - Int 17	Distributions of Non-cash Assets to Owners

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

Amendments to IAS 17 Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The application of the amendment has had no material effect on the consolidated financial statements of the Group.

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

New and revised Standards and Interpretations issued but not yet effective

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

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRS 3 (as revised in 2008), IAS 1 and IAS 28[1]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC - Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 February 2010.

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

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

New and revised Standards and Interpretations issued but not yet effective (continued)

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation 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 IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary 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. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

The Group regards acquisition of partial interest in the equity of a subsidiary with non-controlling shareholders without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying amount of the subsidiary's net assets acquired is recorded in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control

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

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

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

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

Revenue recognition

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

Revenue from sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

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

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

The Group as lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

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

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 a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Foreign currencies

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

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

Property, plant and equipment

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

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

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

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans or state-owned retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment losses on tangible assets

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

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

Inventories

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

Financial Instruments

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets

The Group's financial assets are classified into loans and receivables.

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instrument

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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 through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, amount due to a related party, amount due to ultimate controlling shareholder and amount due to immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

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

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

Useful lives and impairment of property, plant and equipment

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

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010, the carrying amount of trade receivables is RMB244,451,000 (2009: RMB134,035,000). There is no allowance for doubtful debts as at 31 December 2010 (2009: Nil).

6. CAPITAL RISK MANAGEMENT

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

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

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

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2010 RMB'000	2009 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	711,347	224,016
Financial liabilities:		
Amortised cost	737,376	716,419

7b. Financial risk management objectives and policies

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

Market risk

(i) Currency risk

Several subsidiaries of the Company have financial assets and liabilities denominated in foreign currencies, which expose the Group to foreign currency risk.

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

	Assets		Liabilities	
	2010 RMB´000	2009 RMB´000	2010 RMB´000	2009 RMB´000
Hong Kong Dollar ("HK$")	98,801	43	20,146	1,649
United Sates Dollar ("US$")	15,059	62,037	5,105	108,840

7. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i)* *Currency risk (continued)

Sensitivity analysis

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

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

	HK$		US$	
	2010	2009	**2010**	2009
	RMB´000	RMB´000	**RMB´000**	RMB´000
Profit or loss (i)	**(3,933)**	80	**(498)**	2,340

(i) This is mainly attributable to the exposure on HK$ and US$ denominated bank balances and amounts due to ultimate controlling shareholder and immediate holding company at the end of the reporting period.

(ii)* *Interest rate risk

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

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") arising from the Group's RMB denominated borrowings.

7. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

In the management's opinion, the Group does not have significant exposure to interest rate risk related to its variable-rate bank balances during the year.

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

At 31 December 2010, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB1,540,000 (2009: RMB1,313,000) for the year ended 31 December 2010.

Credit risk

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

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

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

The Group's concentration of credit risk by geographical location is solely in the PRC as at 31 December 2010 and 2009.

The Group has concentration of credit risk as 26% (2009: 27%) of the total trade receivables was due from the Group's five largest customers as at 31 December 2010. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

7. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk

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

As at 31 December 2010, the Group has available unutilised bank loan facilities of approximately RMB263,520,000 (2009: RMB120,000,000).

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

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

Liquidity tables

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2010							
Trade and other payables	—	—	183,696	—	—	183,696	183,696
Bank borrowings							
– fixed rate	5.04	—	145,887	—	—	145,887	143,000
– variable rate	4.97	—	139,709	257,405	41,811	438,925	410,680
		—	469,292	257,405	41,811	768,508	737,376
At 31 December 2009							
Trade and other payables	—	—	87,581	—	—	87,581	87,581
Amount due to a related party	—	8,584	—	—	—	8,584	8,584
Amount due to ultimate controlling shareholder	—	1,649	—	—	—	1,649	1,649
Amount due to immediate holding company	—	95,605	—	—	—	95,605	95,605
Bank borrowings							
– fixed rate	4.78	—	178,141	—	—	178,141	173,000
– variable rate	4.86	—	29,581	86,110	275,404	391,095	350,000
		105,838	295,303	86,110	275,404	762,655	716,419

7. FINANCIAL INSTRUMENTS (continued)

7c. Fair value

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

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

8. REVENUE

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

	2010 RMB'000	2009 RMB'000
Revenue from the sales of:		
Double-sided Machine Finished ("MF") Tissue Paper	**625,483**	470,426
Single-sided MF Tissue Paper	**372,893**	168,609
Copy Paper	**113,300**	85,758
Other products	**112,621**	—
	1,224,297	724,793

9. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

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

- Double-sided MF Tissue Paper - manufacturing and trading of Double-sided MF Tissue Paper;
- Single-sided MF Tissue Paper - manufacturing and trading of Single-sided MF Tissue Paper;
- Copy Paper - manufacturing and trading of copy paper; and
- Other products - manufacturing and trading of paper towels and ivory boards.

9. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Double-sided MF Tissue Paper	**625,483**	470,426	**214,690**	154,118
Single-sided MF Tissue Paper	**372,893**	168,609	**128,111**	57,742
Copy Paper	**113,300**	85,758	**36,240**	28,792
Other products	**112,621**	—	**22,045**	—
	1,224,297	724,793	**401,086**	240,652
Other income and other gains and losses			**(5,811)**	2,421
Selling and distribution expenses			**(5,722)**	(4,066)
Administrative expenses			**(51,498)**	(32,062)
Listing expenses			**(20,952)**	(4,956)
Finance costs			**(22,271)**	(18,219)
Profit before tax			**294,832**	183,770
Income tax expense			**(38,283)**	(13,093)
Profit and total comprehensive income for the year			**256,549**	170,677

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to Chief Executive Officer for the purposes of resources allocation and performance assessment.

9. SEGMENT INFORMATION (continued)

(c) Segment assets

	2010 RMB'000	2009 RMB'000
Double-sided MF Tissue Paper	**277,202**	243,003
Single-sided MF Tissue Paper	**102,319**	51,001
Copy Paper	**31,153**	35,936
Other products	**69,996**	—
Total of all segments	**480,670**	329,940
Unallocated		
– Property, plant and equipment	**540,012**	302,394
– Investment properties	**—**	21,098
– Prepaid lease payments	**259,332**	265,081
– Deposit paid for acquisition of property, plant and equipment	**108,540**	42,957
– Deposit paid for acquisition of land use right	**22,155**	—
– Inventories	**131,754**	99,594
– Trade and other receivables and prepayments	**264,329**	154,580
– Pledged bank deposits	**1,855**	2,860
– Bank balances and cash	**463,634**	86,825
	2,272,281	1,305,329

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

(d) Segment liabilities

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

9. SEGMENT INFORMATION (continued)

(e) Other segment information

	Double-sided MF Tissue Paper RMB'000	Single-sided MF Tissue Paper RMB'000	Copy Paper RMB'000	Other Products RMB'000	Unallocated RMB'000	Total RMB'000
Year ended 31 December 2010						
Capital additions	**44,967**	**16,343**	**—**	**35,092**	**298,882**	**395,284**
Depreciation and amortisation	**11,472**	**3,756**	**1,894**	**2,028**	**18,033**	**37,183**
Loss on disposal of property, plant and equipment	**—**	**—**	**—**		**502**	**502**
Year ended 31 December 2009						
Capital additions	13,358	—	—	—	251,053	264,411
Depreciation and amortisation	10,171	2,456	1,894	—	12,982	27,503
Loss on disposal of property, plant and equipment	—	—	—	—	123	123

(f) Geographical information

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

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

(g) Information about major customers

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

10. OTHER INCOME AND OTHER GAINS AND LOSSES

	2010 RMB'000	2009 RMB'000
Bank interest income	**1,375**	1,006
Loss on disposal of property, plant and equipment	**(502)**	(123)
Net foreign exchange (losses) gains	**(9,849)**	244
Donation	**(880)**	(5)
Government grants (note)	**3,680**	903
Gross rental income from investment properties	**656**	1,642
Less: direct operating expenses from investment properties	**(228)**	(913)
Others	**(63)**	(333)
	(5,811)	2,421

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC (i) for developing innovative production technology and maintaining a good reputation in the business community and (ii) as an award for the successful listing of the Company on the Stock Exchange in current year. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

11. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**27,863**	22,722
Less: Amounts capitalised	**(5,592)**	(4,503)
	22,271	18,219

During the year ended 31 December 2010, the borrowing costs RMB5,592,000 (2009: RMB4,503,000) capitalised are attributable to funds borrowed specifically for the purpose of constructing particular qualifying assets.

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2010	2009
	RMB'000	RMB'000
Employee benefits expenses (including directors):		
Salaries and other benefits	**37,442**	24,573
Retirement benefits scheme contributions	**1,198**	3,459
	38,640	28,032
Depreciation of property, plant and equipment	**31,206**	22,895
Depreciation of investment properties	**228**	913
Release of prepaid lease payments	**5,749**	3,695
Total depreciation and amortisation expenses	**37,183**	27,503
Auditors' remuneration	**2,909**	1,252
Listing expenses (Note)	**20,952**	4,956
Cost of inventories recognised as expenses	**823,211**	484,141

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

During the year ended 31 December 2010, there was a reversal of allowance for obsolete raw materials of RMB179,000 (2009: allowance for obsolete raw materials of RMB179,000) recognised because of subsequent usage and included in cost of sales.

13. TAXATION

	2010	2009
	RMB'000	RMB'000
Income tax expenses:		
Charge for the year	43,520	13,093
Overprovision in prior year	(5,237)	—
	38,283	13,093

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

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

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

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

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

Xiyuan and Huaxiang are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years (the "Tax Concession"). 2009 is the second exemption year and 2010 is the first year subject to 50% tax relief.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for EIT (Guofa [2007] No. 39), the Tax Concession for Xiyuan and Huaxiang are still applicable until the end of the five-year transitional period under the Enterprise Income Tax Law of the PRC ("New Tax Law"). Huaxiang and Xiyuan were subjected to EIT at 12.5% from 2010 to 2012.

13. TAXATION (continued)

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**294,832**	183,770
Tax at the PRC statutory EIT rate of 25%	**73,708**	45,943
Effect of tax exemptions	**(39,269)**	(34,706)
Overprovision in prior year	**(5,237)**	—
Tax effect of expenses not deductible for tax purpose	**8,473**	1,896
Tax effect of income not taxable for tax purpose	**—**	(158)
Others	**608**	118
	38,283	13,093

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB537,450,000 (2009: RMB274,592,000) at 31 December 2010, as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	2010 RMB'000	2009 RMB'000
Directors' emoluments:		
– salaries and other benefits	2,268	900
– retirement benefit schemes contributions	38	7
	2,306	907

Year ended 31 December 2010

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Year ended 31 December 2009

	Fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Retirement benefit schemes contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr Ke	—	600	—	—	4	604
Mr Ke Jixiong	—	300	—	—	3	303
Mr Cao Xu	—	—	—	—	—	—
Mr Zhang Guoduan	—	—	—	—	—	—
Mr Paul Steven Wolansky	—	—	—	—	—	—
Prof. Zhang Daopei	—	—	—	—	—	—
Prof. Chen Lihui	—	—	—	—	—	—
Mr Chow Kwok Wai	—	—	—	—	—	—
	—	900	—	—	7	907

For the years ended 31 December 2010 and 2009, no director waived or agreed to waive any emoluments and no incentive was paid to any directors as an induction to join the Company.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2009: two) were directors of the Company whose emoluments are included in the disclosures above for the year ended 31 December 2010. The emoluments of the remaining two (2009: three) individuals for the year ended 31 December 2010, were as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**1,988**	349
Retirement benefit schemes contributions	**26**	9
	2,014	358

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments (continued)

Their emoluments were within the following bans:

	2010 No. of employees	2009 No. of employees
Nil to HK$1,000,000 (equivalent to RMBnil to RMB855,000)	**1**	3
HK$2,000,001 to HK$2,500,000 (equivalent to RMB1,710,001 to RMB2,137,500)	**1**	—

15. EARNINGS PER SHARE - BASIC

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

	2010 RMB'000	2009 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**256,549**	165,941

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**900,000,000**	750,000,000

For the year ended 31 December 2010, the weighted average number of ordinary shares has been adjusted retrospectively for (i) the 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and (ii) 749,990,000 shares issued pursuant to the capitalisation issue. In addition, the effect of 250,000,000 shares issued under public offering as more fully described in note 24 has also been included.

For the year ended 31 December 2009, the weighted average number of ordinary shares of 750,000,000 is calculated assuming the (i) 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and (ii) 749,990,000 shares issued pursuant to the capitalisation issue as more fully described in note 24 had been completed as at 1 January 2009.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Properties under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2009	188,331	254,764	3,860	1,313	133,232	581,500
Additions	20,554	4,813	1,421	3,238	81,369	111,395
Transfer	58,425	81,746	—	—	(140,171)	—
Disposals	—	—	—	(260)	—	(260)
At 31 December 2009 and 1 January 2010	267,310	341,323	5,281	4,291	74,430	692,635
Additions	—	4,301	2,380	1,780	386,823	395,284
Transfer	64,241	90,502	—	—	(154,743)	—
Reclassified from investment properties (note 18)	20,870	—	—	—	—	20,870
Disposals	(578)	(30)	(44)	(328)	—	(980)
At 31 December 2010	351,843	436,096	7,617	5,743	306,510	1,107,809
DEPRECIATION						
At 1 January 2009	(16,789)	(29,871)	(1,085)	(406)	—	(48,151)
Provided for the year	(6,655)	(15,131)	(776)	(333)	—	(22,895)
Disposals	—	—	—	57	—	57
At 31 December 2009 and 1 January 2010	(23,444)	(45,002)	(1,861)	(682)	—	(70,989)
Provided for the year	(9,661)	(19,798)	(1,205)	(542)	—	(31,206)
Disposals	74	19	39	194	—	326
At 31 December 2010	(33,031)	(64,781)	(3,027)	(1,030)	—	(101,869)
CARRYING VALUES						
At 31 December 2010	318,812	371,315	4,590	4,713	306,510	1,005,940
At 31 December 2009	243,866	296,321	3,420	3,609	74,430	621,646

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

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

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

17. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	**259,332**	265,081
Analysed for reporting purpose as:		
– Current assets	**5,770**	5,770
– Non-current assets	**253,562**	259,311
	259,332	265,081

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

18. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2009 and 31 December 2009 and 1 January 2010	30,422
Reclassified as property, plant and equipment (note 16)	(30,422)
At 31 December 2010	—
ACCUMULATED DEPRECIATION	
At 1 January 2009	(8,411)
Provided for the year	(913)
At 31 December 2009 and 1 January 2010	(9,324)
Provided for the year	(228)
Reclassified as property, plant and equipment (note 16)	9,552
At 31 December 2010	—
CARRYING VALUES	
At 31 December 2010	—
At 31 December 2009	21,098

The fair value of the Group's investment properties at 31 December 2009 was RMB22,143,000. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Sallmans Limited, independent valuers not connected with the Group. The valuation was determined by capitalising the rental income received from the existing lease with due provision from the reversionary income potential of the properties.

18. INVESTMENT PROPERTIES (continued)

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

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

19. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	131,755	99,483
Work in progress	36	111
Finished goods	14,705	10,688
	146,496	110,282

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Trade receivables	244,451	134,035
Prepayments to suppliers	5,105	13,658
Other prepayments	1,407	5,364
Other tax recoverable	13,234	1,227
Others	132	296
	264,329	154,580

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

	2010 RMB'000	2009 RMB'000
0 to 30 days	138,767	90,385
31 to 60 days	105,684	43,650
	244,451	134,035

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (continued)

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

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is considered necessary for those balances which are not past due.

Movement in the allowance for doubtful debts

	2010 RMB'000	2009 RMB'000
Balance at beginning of the year	—	—
Impairment losses recognised on receivables	—	68
Amounts written off as uncollectible	—	(68)
Balance at end of the year	—	—

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

Bank balances of the Group carry market interest rates of range from 0.001% to 1.89% (2009: 0.01% to 0.36%) per annum as at 31 December 2010.

Pledged bank deposits of the Group carry market interest rates of 0.36% (2009: 0.36% to 3.78%) per annum as at 31 December 2010.

22. TRADE AND OTHER PAYABLES

	2010 RMB'000	2009 RMB'000
Trade payables	144,489	67,467
Notes payables	5,105	13,235
	149,594	80,702
Other payables for acquisition of plant and equipment	13,956	6,879
Other tax payables	358	7,110
Accrued staff costs	3,594	2,787
Accrued employee social security fund	9,790	9,790
Accrued electricity expenses	6,814	4,864
Accrued listing expenses	20,146	4,645
Other accrued expenses	5,177	1,549
	209,429	118,326

22. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables at the end of the reporting period:

	2010	2009
	RMB'000	RMB'000
Within 30 days	99,142	42,194
31 to 90 days	45,347	25,269
91 to 120 days	—	4
	144,489	67,467

The following is an aged analysis of notes payables at the end of the reporting period:

	2010	2009
	RMB'000	RMB'000
31 to 90 days	5,105	—
91 to 120 days	—	8,660
121 to 180 days	—	4,575
	5,105	13,235

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

23. BANK BORROWINGS

	2010	2009
	RMB'000	RMB'000
Secured bank borrowings	443,680	403,000
Unsecured bank borrowings	110,000	120,000
	553,680	523,000
The amount is repayable as follows:		
Within one year	264,560	182,820
More than one year, but not exceeding two years	249,120	71,310
More than two years, but not exceeding five years	40,000	268,870
	553,680	523,000
Less: Amounts due within one year shown under current liabilities	(264,560)	(182,820)
	289,120	340,180

23. BANK BORROWINGS (continued)

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

	2010	2009
Effective interest rate:		
Fixed-rate borrowings	**4.92% to 5.04%**	4.78%
Variable-rate borrowings	**90% of Benchmark Rate to Benchmark Rate**	90% of Benchmark Rate to Benchmark Rate

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

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

	2010 RMB'000	2009 RMB'000
Type A	**—**	10,000#
Type B	**—**	144,000#
Type C	**—**	59,000#
Type D	**—**	50,000#
Type E	**—**	150,000#
Type F	**—**	110,000#
Type G	**443,680**	—
Type H	**110,000**	—
	553,680	523,000

23. BANK BORROWINGS (continued)

Type A: Borrowings were guaranteed by Youlanfa Group Industry Co., Ltd. ("YLF Industry"), a former non-controlling shareholder of Huaxiang.

Type B: Borrowings were guaranteed by YLF Industry and secured by assets of related companies which were controlled by Mr Ke's family members.

Type C: Borrowings were guaranteed by YLF Industry and secured by assets of related companies which were controlled by Mr Ke's family members and the Group (note).

Type D: Borrowings were guaranteed and secured by the assets of YLF Industry.

Type E: Borrowings were guaranteed by Mr Ke and/or his family members and secured by assets of the Group (note).

Type F: Borrowings were guaranteed by related companies which were controlled by Mr Ke's family members.

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

Type H: Borrowings are guaranteed by subsidiaries of the Company.

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

	2010	2009
	RMB'000	RMB'000
Property, plant and equipment	**470,847**	285,203
Land use right	**228,396**	138,091
	699,243	423,294

The above guarantees provided by related parties denoted with asterisk '#' were released before the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

24. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.1 each		
Authorised:		
At incorporation, 31 December 2009 and 1 January 2010	3,800,000	380,000
Increase in authorised share capital (note ii)	9,996,200,000	999,620,000
At 31 December 2010	10,000,000,000	1,000,000,000
Issued and fully paid:		
At incorporation, 31 December 2009 and 1 January 2010	1	1
Issued on 14 January 2010 (note i)	9,999	999
Capitalisation issue (note ii)	749,990,000	74,999,000
Issue of shares pursuant to the global offering (note iii)	250,000,000	25,000,000
At 31 December 2010	1,000,000,000	100,000,000

	2010	2009
	RMB´000	RMB´000
Presented in RMB		
Share capital (Note)	**87,680**	—

Note: The share capital as at 31 December 2009 represented the share capital of Xi Yuan BVI.

24. SHARE CAPITAL (continued)

The movements in the Company's authorised and issued ordinary share capital during the year ended 31 December 2010 are as follows:

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

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

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

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

25. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

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

(b) Social security and benefits for PRC employees

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

The total cost charged to profit or loss of RMB1,177,000 (2009: RMB3,459,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2010.

26. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties are as follows:

Name	Relationships
福建優蘭發塗革紙製品有限公司 YLF Leathercover*	YLF Leathercover was a company ultimately controlled by Mr Ke Jixiong, the son of Mr Ke.
福建晉江優蘭發貿易有限公司 Fujian Jinjiang Youlanfa Trading Company Limited* ("YLF Trading")	YLF Trading was the non-controlling shareholder of Youlanfa until the Group acquired 5.08% interest in Youlanfa from YLF Trading on 20 August 2009.
福建優蘭發集團實業有限公司 YLF Industry*	YLF Industry was a company controlled by Mr Ke Jixiong, the son of Mr Ke. It was also the non-controlling shareholder of Huaxiang until the Group acquired the 5% interest in Huaxaing from YLF Industry on 24 September 2009.
漳州順雄貿易有限公司 Zhangzhou Shunxiong Trading Ltd.* （formerly known as Zhangzhou Trading Co., Ltd. * 漳州華優貿易有限公司）("Zhangzhou Shunxiong")	Zhangzhou Shunxiong was the non-controlling shareholder of Xiyuan until the Group acquired the 3.5% interest in Xiyuan from Zhangzhou Shunxiong on 22 April 2009.

* for identification only

(b) Balances with related parties

The Group has the following balances with related parties:

	2010 RMB'000	2009 RMB'000
Amount due to ultimate controlling shareholder (note 1)	—	1,649
Amount due to immediate holding company (note 2)	—	95,605
Amount due to a related party Zhangzhou Shunxiong (note 3)	—	8,584

Notes:

1. The amount was interest free, unsecured, repayable on demand and of non-trade nature and fully settled before the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

2. The amount was interest free, unsecured and repayable on demand. Pursuant to the deed of waiver dated 5 May 2010, the amount due to immediate holding company was waived by the immediate holding company.

3. The amount of RMB8,584,000 at 31 December 2009 was interest free and unsecured and was trading in nature. The amount was aged within 180 days at 31 December 2009. The amount was fully settled before the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

26. RELATED PARTY DISCLOSURES (continued)

(c) Related parties transactions

For the year ended 31 December 2010, other than those arrangements mentioned in note 23, the Group entered into the following significant transactions with related parties:

	2010 RMB´000	2009 RMB´000
Rental income		
YLF Leathercover	656	1,642
Purchases of goods		
Zhangzhou Shunxiong	1,819	87,631
YLF Leathercover	6,035	6,221
	7,854	93,852

The above transactions with related parties were discontinued after the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

In addition, the Group had given certain guarantee to a bank in respect of banking facilities to YLF Leathercover and YLF Industry free of charge, and all the guarantees were fully released during the year ended 31 December 2009.

(d) Compensation of key management personnel

The details of remuneration of key management personnel, represents emolument of directors of the Company paid during the year ended 31 December 2010 are set out in note 14.

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

27. MAJOR NON-CASH TRANSACTIONS

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

During the year ended 31 December 2009, amount due to the ultimate controlling shareholder of RMB111,623,000 was waived. Such amount was recorded in capital reserve as deemed contribution from a shareholder.

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

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

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

28. OPERATING LEASE

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premises and staff quarters during the year ended 31 December 2010 were RMB443,000 (2009: Nil).

At 31 December 2010, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	581	—
In the second to fifth year inclusive	194	—
	775	—

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

The Group as lessor

Property rental income earned during the year ended 31 December 2010 was RMB656,000 (2009: RMB1,642,000). All of the properties held had committed tenants for the next three months at 31 December 2009 and expired in March 2010.

At 31 December 2009, the Group had contracted with YLF Leathercover for the future minimum lease payments of RMB410,000.

29. CAPITAL COMMITMENTS

	2010 RMB'000	2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**343,179**	83,403
Capital expenditure authorised but not contracted for in respect of:		
Property, plant and equipment	**54,810**	—
Land use rights	**67,000**	—
	121,810	—

30. PARTICULARS OF SUBSIDIARIES

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

Name	Place of incorporation	Paid-up issued share capital	Proportion of nominal value of issued capital held by the Company 2010	2009	Principal activities
Xi Yuan BVI	British Virgin Islands	1 ordinary share of US$1	**100% (directly)**	100% (directly)	Investment holding
Sunwell	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100% (indirectly)**	100% (indirectly)	Investment holding
Huaxiang	PRC	RMB300,000,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper, single sided MF Tissue Paperand other products
Xiyuan	PRC	HK$239,220,530	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper, and single sided MF Tissue Paper
Youlanfa	PRC	RMB128,880,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper, copy paper and other products

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

31. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2010	2009
	RMB´000	RMB´000
NON-CURRENT ASSETS		
Investment in a subsidiary	29,810	—
Amount due from a subsidiary	467,003	—
	496,813	—
CURRENT ASSETS		
Prepayment	147	—
Bank balances and cash	52,247	—
	52,394	—
CURRENT LIABILITY		
Other payables and accrued expenses	22,834	—
NET CURRENT ASSETS	29,560	—
NET ASSETS	526,373	—
CAPITAL AND RESERVES		
Share capital (Note 24)	87,680	—
Reserves	438,693	—
TOTAL EQUITY	526,373	—

FINANCIAL SUMMARY

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

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

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

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