

**OVERVIEW**

We are a manufacturer of paper-based packaging products in the PRC capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability. Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper and production of paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment.

Our principal products are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and are suitable for the packaging of consumer products, in particular household air-conditioners and other small household appliances; and (ii) high-strength corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes, and is mainly sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai)). In order to capture the increasing market demand, we have commenced the commercial production of honeycomb paper-based products since December 2010.

Approximately 43.4%, 44.4%, 52.3% and 55.7% of our total revenue was generated from our paper-based packaging products, of which approximately 24.3%, 22.2%, 25.0% and 33.4% of our total revenue was generated from our sales to household air-conditioner manufacturers for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010. According to the Synovate Report commissioned by our Group, paper-based packaging for household air-conditioners in the PRC accounted for approximately 24.0% of the total revenue generated in the PRC paper-based packaging business for white goods in 2009. We were the largest supplier of paper-based packaging products for household air-conditioners in the PRC and our sales volume and revenue accounted for 28.7% and 25.7%, of the total paper-based packaging products for household air-conditioners in the PRC for the year ended 31 December 2009, respectively. Further, according to the China Packaging Federation, we were the largest supplier of paper-based packaging products for household air-conditioners in the PRC in terms of production volume for the year ended 31 December 2009 and our Group's paper-based packaging products accounted for approximately 30.5% of the total paper-based packaging products for air-conditioners in the PRC. We sell our paper-based packaging products to consumer product manufacturers in various industries, targeting in particular major manufacturers of household appliances (commonly known as "white goods"), such as Gree, Midea and Galanz. Our principal packaging business unit, Zheng Ye Packaging (Zhongshan), was accredited as China Leading Packaging Enterprise (中國包裝龍頭企業) in 2006 by China Packaging Federation, only three years subsequent to its establishment. This is a significant recognition of our commitment to the production of high quality paper-based packaging products and manifestation of our excellence in the packaging industry in China.

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, our Group also manufactures high-strength corrugated medium paper, which could satisfy our Group's demand for corrugated medium paper for producing paper-based packaging products. We are also committed in the continuous development and production of low quantum corrugated medium paper. For six consecutive years since 2003, the quality of our corrugated medium paper manufactured by Yong Fa Paper has been recognised by 國家輕工業紙張質量監督檢測廣州站 (China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division\*) to have achieved the excellent standard. This could ensure the stable supply of quality raw materials for our Group's production of paper-based packaging products.

## BUSINESS

By leveraging our continuous expansion in production capacity expansion and our technical know-how in the manufacture of high-strength corrugated medium paper and paper-based packaging products, we achieved satisfactory growth in our business during the Track Record Period. Although our turnover was adversely affected by the financial crisis occurred in late 2008 and for each of the three years ended 31 December 2009, our Group's turnover was approximately RMB687.5 million, RMB836.4 million and RMB743.4 million, respectively, our Group's profit after taxation for each of these three years was approximately RMB60.3 million, RMB24.5 million and RMB62.3 million, respectively. Moreover, our turnover and profit after taxation for the nine months ended 30 September 2010 were approximately RMB758.2 million and RMB71.5 million, respectively, representing a growth of approximately 42.6% and 46.9%, respectively, when compared to those for the nine months ended 30 September 2009.

The following table shows the breakdown of our revenue by business lines during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
(unaudited)										
<b>Revenue by product</b>										
Paper-based packaging products	297,989	43.3%	371,571	44.4%	388,497	52.3%	275,431	51.8%	422,635	55.7%
Corrugated medium paper	<u>389,556</u>	56.7%	<u>464,838</u>	55.6%	<u>354,854</u>	47.7%	<u>256,135</u>	48.2%	<u>335,526</u>	44.3%
<b>Total</b>	<b><u>687,545</u></b>	<b>100.0%</b>	<b><u>836,409</u></b>	<b>100.0%</b>	<b><u>743,351</u></b>	<b>100.0%</b>	<b><u>531,566</u></b>	<b>100.0%</b>	<b><u>758,161</u></b>	<b>100.0%</b>

The revenue generated from our paper-based packaging products accounted for approximately 43.3%, 44.4%, 52.3% and 55.7% of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively. Contribution from the sales of our paper-based packaging products increased throughout the Track Record Period primarily due to the increase in sales volumes. The average selling price per sq.m. of our paper-based packaging products was stable and maintained at a range from approximately RMB3.0 per sq.m. to RMB3.5 per sq.m. during the Track Record Period, whereas sales from paper-based packaging products sales increased throughout the Track Record Period due to our growing emphasis on promoting our paper-based packaging products, increasing demand by customers for such products as well as our effort in expanding our customer base from focusing on the air-conditioning industry in the past to a wider range of industries, including the household appliance and food condiment industries during the Track Record Period. With the rising portion of revenue generated from the paper-based packaging products, we recorded an increasingly stable overall gross profit margin during the Track Record Period. This is mainly attributable to higher stability in pricing and cost structure of paper-based packaging products segment. On the other hand, as a result of the rising portion of revenue generated from the paper-based packaging products, we may face a risk of longer payment cycle as a result of longer credit period we granted to the customers of our paper-based packaging products. For details, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Revenue — Paper-based packaging products" in this prospectus.

The revenue generated from our corrugated medium paper accounted for approximately 56.7%, 55.6%, 47.7% and 44.3% of our total revenue for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively. Our Group prioritises the internal supply of corrugated medium paper for our production of paper-based packaging products with a

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## BUSINESS

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view to ensuring product quality. We only consumed approximately 1%, 24%, 10% and 4% of corrugated medium paper from third parties for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010. For the same period, after the internal consumption of corrugated medium paper for our own production of paper-based packaging products, approximately 85%, 87%, 78% and 78% of our corrugated medium paper was sold to third parties. While the sales volume was growing steadily during the Track Record Period, the average selling price per tonne of our corrugated medium paper in 2007 and 2008 was approximately RMB2,361 and RMB2,626, respectively but dropped to approximately RMB1,939 in 2009 due to lower market price of the waste paper, the principal raw material for the production of our corrugated medium paper. For details, please refer to the section “Financial information — Description of certain components of statements of comprehensive income — Revenue — Corrugated medium paper” in this prospectus.

Our gross profit for each of the three financial years ended 31 December 2009 and the nine months ended 30 September 2010 was approximately RMB121.1 million, RMB102.9 million, RMB139.1 million and RMB139.1 million, respectively, while our gross profit margin for each of the three financial years ended 31 December 2009 and the nine months ended 30 September 2010 was approximately 17.6%, 12.3%, 18.7% and 18.3%, respectively.

Our Group’s gross profit margin for corrugated medium paper dropped significantly from approximately 17.1% for the year ended 31 December 2007 to approximately 7.4% for the year ended 31 December 2008, however, the gross profit margin for paper-based packaging products maintained stable at approximately 18.2% and 18.4% for the year ended 31 December 2007 and 2008, respectively. Our Directors considered that the difference in the fluctuation of the gross profit margin of our corrugated medium paper and paper-based packaging products could be attributable to the difference in their pricing policies and the cost structure of these two products. Throughout the year 2009, our gross profit margin for corrugated medium paper improved significantly due to the gradual improvement in the global economy after the financial crisis. Our Group’s gross profit margin for corrugated medium paper then increased to approximately 15.6% and 17.7% for the year ended 31 December 2009 and the nine months ended 30 September 2010. Meanwhile, the gross profit margin for paper-based packaging products increased to approximately 21.5% for the year ended 31 December 2009 but then decreased to approximately 18.8% for the nine months ended 30 September 2010. For details of the pricing policies, please refer to the section “Financial information — Description of certain components of statements of comprehensive income — Gross profit and gross profit margin” in this prospectus.

We had net current liabilities of approximately RMB4.3 million and RMB10.0 million as at 31 December 2008 and 30 September 2010 respectively. Our net current liabilities positions were principally attributed to the utilisation of short-term bank borrowings from licensed banks in the PRC to finance our business operations and capital expenditure for the respective financial periods. For details, please refer to the section “Financial information — Liquidity, financial resources and capital structure” in this prospectus.

With our existing production base locating in the Pearl River Delta region which is a base for the manufacturing of household appliances in the PRC, we are able to serve as an enterprise capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability, supplying quality corrugated cartons and other ancillary products such as honeycomb paper-based products for the provision of packaging solution for many “white goods” such as household air-conditioners. As at the Latest Practicable Date, we owned and operated nine production lines, including six production lines for corrugated cartons, two production lines for honeycomb paper-based products and one production line for corrugated medium paper, with an

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## BUSINESS

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aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, and approximately 220,000 tonnes of corrugated medium paper. We are in the process of setting up the fourth paper making machine with a designed capacity of approximately 80,000 tonnes corrugated medium paper, which is scheduled to commence its operation in the second half of 2011. Our Group purchased honeycomb paperboard from third parties for further processing and sold the processed honeycomb paper-based products for the nine months ended 30 September 2010. Such sales constituted approximately 0.6% of our total sales for the nine months ended 30 September 2010. Our Group commenced the commercial production of honeycomb paper-based products in December 2010. In view of the potential business opportunity in the central China area, we intend to set up a paper-based packaging production plant in Zhengzhou, Henan Province, the PRC, which is expected to contribute to our Group an additional annual production capacity of up to an approximately 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the fourth quarter of 2011. In addition, Zheng Ye Packaging (He Fei) was established in 10 September 2010 for setting up our new production base in Hefei, Anhui Province, the PRC, where it is expected to become a growing hub for the household appliance industry. It is expected that this production base will contribute to our Group an additional annual production capacity of up to approximately 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the first quarter of 2012.

Due to strong growth in personal disposable income and rising living standard in the PRC, it is expected that the demand for “white goods” in terms of quality and value will continue to rise. Moreover, with the implementation of the Rural Appliance Rebate Program which encourage spending on household appliances, it is expected the overall sales of household appliances shall continue to increase. Our Directors believe that such initiative to encourage spending on household appliances could stimulate the demand for household appliances, which would increase the demand of our paper-based packaging products by our customers, whom include major manufacturers of household appliances. Sales of approximately RMB193.3 million, RMB252.9 million, RMB268.1 million and RMB333.8 million, representing approximately 65%, 68%, 69% and 79% of our revenue from the paper-based packaging product segment was derived from household appliances manufacturers for the three years ended 31 December 2009 and nine months ended 30 September 2010, respectively, and which accounted for approximately 28%, 30%, 36% and 44% of our total revenue for the same period. The Rural Appliance Rebate Program will expire on 30 November 2012 and another state policy, the Change of the Old for New Program will expire on 31 December 2011. In addition, social advocacy of environmental protection would also fuel the demand for more environmentally friendly packaging. In particular, our Directors believe that the recent trend to fully replace the use of foam and plastic in packaging has induced the demand for alternative packaging materials (such as corrugated medium paper) and products (including corrugated paperboards and cartons), which in turn accelerates the growth potential for our paper-based packaging products. According to the Packaging Report, as the development of the PRC packaging industry and the consumer demand are highly correlated, it is expected that there will be an enormous growth potential at a CAGR of approximately 14.9% in the corrugating carton packaging industry in the PRC for the next three years.

Our Directors believe that our Group is competitive and well positioned in the paper-based packaging industry to capture the anticipated growth in the demand in the PRC for quality corrugated medium paper and paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment, given that: (i) our Group focuses on serving large

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## BUSINESS

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scale household appliances enterprises with paper-based packaging products with strong emphasis on packaging design and products development which can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on the environment; (ii) our long-term relationship with our major customers (many of which are reputable brand-name holders in the PRC); (iii) our highly automated production lines and stringent quality control measures; (iv) our own capability to produce high quality corrugated medium paper to ensure the stable supply and quality of critical raw materials for our Group's packaging business; and (v) our professional and experienced management team with in-depth knowledge in the industry.

### MILESTONES IN OUR BUSINESS DEVELOPMENT

Our Group was first incepted with the establishment of Zheng Ye International in 1999 by Mr. Hu Zheng. After about a decade's of unremitting efforts, our Group has now become a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper, and production of paper-based packaging products in the PRC. The following sets out the key business development milestones since our establishment:

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| 1999 | Zheng Ye International, our first operating subsidiary, was incorporated in Hong Kong to engage in the trading of waste paper  |
| 2002 | Zheng Ye International commenced its business of waste paper trading   |
| 2003 | Zheng Ye Packaging (Zhongshan) and Yong Fa Paper were established in Zhongshan, Guangdong Province, the PRC to commence the business of manufacturing of paper-based packaging products and manufacturing and sales of corrugated medium paper, respectively<br><br>Zheng Ye Packaging (Zhongshan) became the supplier of Gree |
| 2004 | Zheng Ye Packaging (Zhongshan) became the supplier of Midea and Galanz   |
| 2005 | Zheng Ye Packaging (Zhuhai) was established as the second subsidiary for the manufacturing of paper-based packaging products of our Group's packaging service  |
| 2006 | Zheng Ye Packaging (Zhongshan) obtained the accreditation of China Leading Packaging Enterprise (中國包裝龍頭企業)   |
| 2009 | Zheng Ye Packaging (Zhongshan) was named Strategic Supplier for 2009 by Midea and Galanz   |
| 2010 | Zheng Ye Packaging (He Fei) was established as our new production base in Hefei, the PRC<br><br>Zheng Ye Alliance Packaging has built two production lines specialised for honeycomb paper-based products at the new factory at Zhongshan Guangdong Province, the PRC, and has commenced production in December 2010.          |



**COMPETITIVE STRENGTHS**

We attribute our success to the following competitive strengths which enable our Group to further expand and maintain our position in the PRC market and bolster our future prospects:

**As our products are produced principally using waste paper, we could maintain sustainable development in the corrugated medium paper and paper-based packaging industries in light of the national policies of the PRC and growing concern over environmental protection**

Our corporate mission is: “Caring for environmental protection and developing circular economy; turning waste into wealth and creating a harmony environment”. We use waste paper as our principal raw material for the production of our corrugated medium paper which in turn is used in the production of our paper-based packaging products and these corrugated medium paper and paper-based packaging products can be recycled again. We believe the use of waste paper as the primary raw material for manufacturing paper has been encouraged under various national policies promulgated by the PRC government as waste paper can be recycled and thus reducing the use of wood and timber. For example, in 《關於加快推進木材節約和代用工作的意見》(國辦發[2005]58號) (Opinion on Speeding up the Implementation on the Timber Conservation and the Utilisation of Timber Substitutes (No. 58 [2005] of the General Office of the State Council\*)), the production and use of substitutions for wood and timber was encouraged.

In addition, our quality paper-based packaging products can be engineered to provide the desired characteristics for a particular packaging application in which paper-based packaging materials are used to replace foam products used as inner packaging. We believe our customers have heeded the exponentially growing call for ecologically friendly practices and are more inclined to use recyclable packaging products. There will be a growing trend that these customers, in particular those “white goods” manufacturers, will place more orders for paper-based packaging products such as corrugated cartons with modeled pulp or honeycomb paper-based products as inner cushion and shock absorption materials, all of which can substitute foam and plastic packaging materials and in turn, increase the demand for paper-based packaging products in the PRC.

Our Directors believe that these national policies and the growing concern over environmental protection would advocate the potential growth in demand for our paper and paper-based packaging products. As such, our Directors believe that given our capability in producing quality corrugated medium paper and paper-based packaging products, we could capture the growing demand for corrugated medium paper and paper-based packaging products in the PRC, and further develop our paper-based packaging business.

**We have a diversified and solid customer base; and are located in proximity with our customers**

Our customers mainly include: (i) in respect of our paper-based packaging products, manufacturers of consumer products in various industries, including some renowned brands in the PRC, such as Gree, Midea, Galanz, TCL and Panasonic being the major household appliances manufacturers in the PRC, and Lee Kum Kee and Haitian in the food condiment industry. We have also been successful in becoming a strategic supplier of packaging products to a number of our customers; and (ii) in respect of our corrugated medium paper, manufacturers of corrugated cartons.

To avoid over-reliance on any particular customer or industry, our Group has successfully built up a solid customer base with major customers across various industries, including household appliances, food condiment, motor bikes and information technology products.

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## BUSINESS

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Our Directors believe that the business relationship with these renowned customers has proven their recognition of the quality products and services of our Group, and our Directors consider these recognition and goodwill will be a key factor to succeed in the industry. We also believe that our Group is widely seen as a high-quality and stable option for companies that seek partnership with us as a platform for investment and mutual growth, especially in China. We have the organizational capability to grow with our customers and our focus on quality products and services will continue to make us a sought-after player in the packaging market. Such well penetrated and solid customer base provides a favourable foundation for our Group to further develop and expand our business.

Our existing production plants are located in Zhongshan and Zhuhai, the southern part of the PRC and within the Pearl River Delta region, which has been one of the world's most important centres of industrial output and a major manufacturing and export hub of household appliances of the PRC following the adoption of its open door economic reform policies in the 1970s. As the Pearl River Delta region is a major hub of light industry in the PRC, a number of "white goods" and food condiment manufacturing enterprises, including some of our major customers (such as Gree, Midea, Galanz and Haitian), have established their production plants within a 100-km radius of our production plants in this region. Therefore, we enjoy a conspicuous advantage in setting up our production plants in their proximity which allows us to minimise production lead-times for our goods to reach our customers. It also helps distinguish us as a more cost-effective supplier by lowering the transportation cost for our customers. In addition, our production plants are also in close proximity to a highly developed highway network of the Guangdong Province. Our own shipping pier in Zhongshan, Guangdong Province, the PRC, will also enable us to make good use of natural waterway of the Pearl River Delta in sourcing raw materials, such as waste paper and raw paper.

The close proximity of our production base with our customers also enables us to provide quality after sales service. We pride ourselves on being able to provide quality products which fit our customers' needs. To better understand our customers' ongoing needs and ensure all our customers are satisfied with our products, each of our customers is served by a designated account manager and experienced sales team who will follow up with our customers on a regular basis, either by phone calls, by attending our customers' production facilities to understand the use of our products to ensure all our customers' feedback are well received and followed up.

### **We have an integrated operational chain and our continuous expansion in production capacity enables us to take advantage of economies of scale**

We are an enterprise having an integrated chain of production process stretching from the recycling of waste paper to the manufacturing of corrugated medium paper and production of paper-based packaging products. Zhong Tang Recycling is our business unit responsible for the entire collection process and storage of waste paper in the Pearl River Delta region of the PRC to support our paper making operations whereas Yong Fa Paper plays a supporting role in sourcing waste paper mainly from Hong Kong and overseas. Yong Fa Paper is also our principal operating subsidiary engaging in the manufacturing of corrugated medium paper. Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai) are our key operating subsidiaries engaging in the processing and production of paper-based packaging products and Zheng Ye Alliance Packaging is our subsidiary specialising in the production of honeycomb paper-based products. Due to our presence and capability in this integrated chain of waste paper recycling, paper and packaging production process, and with our own stable heat-electricity combined supply facility, we have a competitive strength in controlling the cost of production and ensuring the quality of our products.

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## BUSINESS

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Enhancing production capabilities and efficiency has always been a priority for us. As at the Latest Practicable Date, we owned and operated nine production lines including six production lines for corrugated cartons, two production lines for honeycomb paper-based products and one production line for corrugated medium paper, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, and approximately 220,000 tonnes of corrugated medium paper. In addition to the significant investment in technologically advanced paper and paperboard making machines we purchased from Germany and the PRC, we have allocated resources to improve our production efficiency. With such production facilities and satisfactory production efficiency, coupled with the close proximity of our production facilities to the production bases of our customers, we are able to benefit from the economies of scale and produce and deliver products to customers on a timely basis and most importantly, at a lower average cost, which in turn allows us to market our products at a competitive price. This has strengthened our position as an established paper-based packaging enterprise in the PRC and we will continue to improve and fine tune our production facilities to maintain our competitiveness. Our scale of production also provides us with flexibility to accommodate changes in market demand and enables us to meet requirements of a wide spectrum of customers.

### **We adopt stringent quality control measures and environmentally responsible practices**

Our Directors believe that continual adherence to stringent quality control procedures is the key in maintaining good reputation for product quality among our customers and differentiating our competitors in the packaging industry.

We impose stringent inspection and testing procedures on raw materials and finished products and implement comprehensive quality control measures throughout the entire production manufacturing and management processes, including sample testing of raw paper texture and random inspection of quality at each stage of production in order to ensure that, above all, our products have satisfied our customers' specifications and requirements. Our efforts are best illustrated through the awards and certificates we have obtained. As at the Latest Practicable Date, Zheng Ye Packaging (Zhongshan), Zheng Ye (Zhuhai) and Yong Fa Paper had been accredited with the internationally recognised ISO 9001 certification in respect of the quality management system they operate. In addition, each of our Group's production facilities has its own testing centre for sample testing of raw paper texture before production and sample testing of work-in-progress and finished products before delivery.

During the Track Record Period, we had not received any material complaint from our customers nor had we experienced any material return of defective products. Our Directors believe that our focus on maintaining stringent quality control standards allows us to establish market reputation as one of the leading manufacturers of paper-based packaging products for household air-conditioners in the PRC.

We always attach importance to environmental protection as our business develops. We use waste paper as our principal raw material for the production of our corrugated medium paper which in turn will be used in the production of our paper-based packaging products. These corrugated medium paper and paper-based packaging products can be recycled again. Over the years, we have invested continuously in energy-saving equipments, waste water treatment system and advanced electrostatic dust removal and flue gas desulfurisation system, and implemented other environmental protection routines at our production plants. All these efforts have paid off as our Group's



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## BUSINESS

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subsidiary, Zheng Ye Packaging (Zhongshan), has been accredited ISO 14001 certification, which certifies that systematic approach has been set up to control the environmental impact of our Group's production.

During the Track Record Period, we had not received any claim for breach or non-compliance with all applicable environmental laws, or incurred any environmental liabilities which could have a material adverse effect on our Group's business and results of operations. In anticipation of more stringent rules and regulations over and the growing call for environmental protection, our environmentally responsible practices would put us in an advantageous position over our competitors, since costs and liabilities related to compliance with applicable environmental laws and regulations are an inherent part of the paper making and packaging business.

### **We have an experienced and capable management team and operating staff with in-depth knowledge in the paper-based packaging and corrugated medium paper industries**

We place strong emphasis on professional personnel and a strong management team. Our Group's continued success is attributable, to a large extent, to our capable and experienced management team led by Mr. Hu Zheng. The management team does not only have in-depth knowledge of corrugated medium paper and paper-based packaging products, but the team members also maintain good relationships with our customers and suppliers. In particular, Mr. Hu Zheng, one of our Group's founders and an executive Director, as well as the Chairman of the Board, has over 20 years of experience in the packaging and corrugated medium paper industries.

Our senior management and key operating personnel not only possesses extensive management skills, operation experience and in-depth knowledge of the corrugated medium paper and packaging industries in the PRC, but also understands the needs of our Group's customers which enable our Group to maintain our competitive edges over our competitors.

Our strong and highly motivated sales team enables us to sustain good business relationships with our existing customers and to develop new business relationship with potential customers. Our management and technical staff, who have vast experience in the packaging and paper manufacturing industries, has given us an invaluable level of know-how in product development, product quality assurance and operation of production facilities. We believe that the collective strengths and experience of our senior management and key operating personnel will continue to serve as a platform upon which our business will grow.

### **BUSINESS STRATEGIES**

We strive to become the leading manufacturer of paper-based packaging products and corrugated medium paper in the PRC. We strive to use waste paper in our production, adopt stringent environmental protection measures and produce products that can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on the environment. With the anticipation on future growth in the demand of paper-based packaging sector and to capture such expected growth, we will continue to seek opportunities to realise sustainable growth of our business.

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## BUSINESS

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In order to achieve this business objective, we intend to continue to expand our business and market share through the following strategies:

**To increase our production capacity within the Southern China region and to enhance our production efficiency and quality assurance and control systems**

We intend to continue to strengthen our packaging business at our existing base in the Southern China region, and, in particular, expand our production capacity of honeycomb paper-based packaging products. In addition to developing paper-based packaging products for “white goods”, we aim to expand into the packaging business for information technology products. We strive to optimise, improve and upgrade our technical know-how and production equipments so as to increase the utilisation rate of our production lines, and to enhance our production efficiency and product quality.

**To establish new paper-based packaging production bases to achieve regional development**

In addition to our further investment in expanding, modifying and upgrading our existing facilities for the production of our corrugated medium paper and paper-based packaging products in our production base in Zhongshan and Zhuhai, Guangdong Province, the PRC, with a view to enhancing our production capacity and efficiency, we intend to set up a new paper-based packaging products production plants in Zhengzhou, Henan Province, and Hefei, Anhui Province, the PRC.

We have received a letter of invitation from Gree who has expanded into Zhengzhou and is constructing a production base for the manufacturing of air conditioners. In order to capture the potential business opportunity in that area and to serve Gree. We will set up a paper-based packaging products production plant with three production lines in the region, which is expected to contribute to our Group an additional annual production capacity of up to approximately 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the fourth quarter of 2011. The project is still in a preliminary stage and our Group is in the process of setting up a company in Zhengzhou to undertake this project.

In addition, we have received letters of invitation from some of our customers who have also expanded into Hefei, Anhui Province, the PRC, where it is expected to become a growing hub for household appliance industry. In view of this, we plan to set up a large scale production base focusing on the production of paper-based packaging production in the region. Zheng Ye Packaging (He Fei) was established on 10 September 2010 in Hefei, where we intend to build a plant with three production lines for the production of paper-based packaging products which will contribute to our Group an additional annual production capacity of up to approximately 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the first quarter of 2012. Our Group has filed with the competent authority the construction plan of infrastructure such as factory and office building for our Hefei project, but we are yet to undergo procedures regarding land use, environmental protection, construction planning, etc.

While the letters of invitation, which are not legally binding in nature, do not constitute confirmed orders, they represent unequivocal recognition in our Group, and strong interests of our customers in sourcing paper-based packaging products from our Group once our new manufacturing facilities are in place.

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## BUSINESS

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We believe this plan is also a “track-the-footstep of customer” strategy through which we are able to expand our geographical coverage beyond the Pearl River Delta region in to the inland region of China and demonstrate our readiness in partnering our major customers for mutual growth since, to the best knowledge of our Directors, some of our major customers in the “white goods” industry, such as Gree and Midea, have already set up sizeable production plants in the same locality with the goal to tap the opportunity of an up and coming consumer market.

### *Expansion plan*

The following table sets forth, among others, the details of our expansion plan, estimated total investment and source of funding as at the Latest Practicable Date:

Details of expansion plan	Status of expansion	Date of expected commencement of production	Total investment as at the Latest Practicable Date	Expected time of completion of payment	Estimated total investment (RMB) and sources of funding
<p>To establish a production plant in Zhengzhou, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products.</p> <p>It is expected that this production base with three production lines will contribute to our Group an additional annual production capacity of 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products.</p>	<p>Our Group is in the course of obtaining the regulatory approval and shall apply to the competent authorities for all the applicable licences and permits in due course.</p> <p>Construction is expected to commence in the second quarter of 2011.</p>	<p>Fourth quarter of 2011</p>	<p>Nil</p>	<p>By the third quarter of 2012</p>	<p>RMB133,300,000; Net proceeds from the Global Offering and working capital</p>
<p>To establish a production plant in Hefei, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products.</p> <p>It is expected that this production base with three production lines will contribute to our Group an additional annual production capacity of 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products.</p>	<p>Zheng Ye Packaging (He Fei) was established in the PRC on 10 September 2010. Our Group shall apply to the competent authorities for all the applicable licences and permits in due course.</p> <p>Construction is expected to commence in the second quarter of 2011.</p>	<p>First quarter of 2012</p>	<p>RMB6,750,000</p>	<p>By the first quarter of 2013</p>	<p>RMB122,300,000; Net proceeds from the Global Offering and working capital</p>

Our Directors expect that such expansion plans will be funded by the proceeds from the Global Offering. For details, please refer to the paragraph headed “Proposed use of net proceeds” in the section headed “Future plans and use of proceeds” in this prospectus.

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## BUSINESS

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Apart from serving our existing customers whom have invited us to expand into the new regions, our Directors believe that, by establishing our presence in the new regions, we could attract new customers who are looking for quality paper-based packaging products. In terms of sourcing our supplies for our new production plants in these new regions, we intend to source from some of our existing suppliers, or look for new suppliers through the local arms of the China Packaging Federation or China Paper Association and the internet. Our Group is confident that we could source suitable suppliers based on our experience and reputation within the industry. In addition, our Group may consider acquiring suitable corrugated medium paper factory and expanding into the waste paper recycling business in these new regions to ensure the stable supply of raw materials in the long run.

We intend to manage our expansion through the implantation of a centralized system. Please refer to the paragraph headed “Business strategies — To fully implement an improved ERP system for better management control and to enhance corporate governance” in this section for details.

We will adopt a centralised system to coordinate our Group’s sales and purchase activities, as well as our financial and human resources management, at our Group’s base located in Zhongshan Guangdong Province, the PRC. Mr. Zhang Xiaoming, vice president of our Group’s packaging division, is responsible for overseeing the operation management of the new projects at Zhengzhou, Henan Province, and Hefei, Anhui Province, the PRC. Mr. Zhang was responsible for our Group’s previous expansion project in Zhuhai, Guangdong Province, the PRC back in 2005 as well. Two senior management staff, both with over ten years of industry experience, have been selected by our Group, and will be designated as the general managers of the new production bases responsible for the daily operation of such bases. They will be supported by two newly recruited deputy factory managers, both with over eight years of industry experience, whom have recently joined our Group and are now undertaking trainings and working alongside our Group’s senior management team at our base at Zhongshan, Guangdong Province, the PRC.

Furthermore, we will continue to keep a stringent quality assurance and control system and maintain a high standard in the inspection of our raw materials, work-in-progress and finished goods. In addition, we will seek advice and collect feedback from industrial expertise and, where appropriate, adopt new measures to modify and improve our quality assurance and control systems.

### **To enhance market penetration in existing markets and to provide value-added paper-based packaging solutions**

We do not rest on our laurels of being named as China Leading Packaging Enterprise (中國包裝龍頭企業). While we have recorded satisfactory growth in the past in the Pearl River Delta region, we consider that there remains a huge potential for development in the same region and also other regions in the PRC. We plan to actively seek further penetration of our paper-based packaging products and corrugated medium paper in our existing markets in the PRC by offering high quality corrugated cartons, honeycomb paper-based products and corrugated medium paper.

Capitalising on our capability in producing high-strength corrugated medium paper, we intend to produce paper-based packaging products using these low quantum corrugated medium paper as raw material to allow weight and raw material cost savings in order to be competitive against other paper-based packaging product using traditional corrugated cardboard or cartons as raw material in the market. These paper-based packaging products would reduce packaging weight, bulk and the amount of material used, allowing customers to save on transportation costs.

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## BUSINESS

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Apart from supplying quality paper-based packaging products, we also recognise the importance of providing value-added and tailor-made packaging solutions, ranging from the design, printing and structural packaging design, to our customers. To differentiate our Group from our competitors, we aim to position ourselves as a solution provider for paper-based packaging services. Our Group places a strong emphasis on packaging design and product development. The essence of packaging is to protect the goods from damage during transportation and storage. Effectiveness of these functions are to a large extent determined by the structural design of the corrugated carton used, as well as the selection of corrugated paperboards, whilst all these factors vary with the particular properties of the package content and customers' specifications. We understand our customers' needs, and offer paper-based packaging solutions to our customers by advising them on, and/or providing them with, design of paper-based packaging products that are tailor-made for their products as a value-added service and sales and marketing strategy. We design corrugated packaging products that best serve our customers' needs according to their specifications and requirements, and we take care of all the production procedures from selecting and procuring suitable raw materials, producing corrugated medium paper or corrugated paperboards, manufacturing corrugated cartons of the required size, shape, weight, thickness, and interior design, and affixing logos, brands or graphics on the surface of the corrugated cartons with different colour for our customers. We plan to deploy our experienced staff in our sales and marketing team, with the support of our production and technical staff, to collaborate with our customers in discussing the specific requirements for any given orders for packaging the products of our customers so that our sales and marketing team could relay appropriate advice to them in respect of their pre-designed packaging so that our customers could achieve the most desired packaging for their products. We believe with our capability in providing tailor-made packaging solutions, we could build up and maintain long term business relationships with our customers and attract potential customers.

### **To strengthen our growth through organic growth, selective acquisitions and partnerships**

Our Directors recognise the importance of maintaining a sustainable growth. Apart from relying on expanding the scale of our operations and introducing new products, it is also our intention to conduct selective acquisitions to increase our production capability and market share. Our primary acquisition targets will be other corrugated medium paper manufacturers, paper-based packaging products manufacturers, or other complementary production facilities in the PRC. As at the Latest Practicable Date, we were not in negotiation with any other specific acquisition targets and had not identified any such targets. We may also establish partnerships with other market players in the areas of production, material sourcing, sales and research. Our Directors believe that such partnerships would create synergy effect and our Group could benefit from having lower costs of materials or sales and strengthened our technical capabilities.

### **To invest in research and development initiatives in order to enhance our production capacity, production efficiency and product diversification**

Our Directors believe that production capacity, production efficiency and product diversification are three elements of our success, and as such our Group will continue to devote resources to enhance our product research and development capabilities. Our Group intends to increase the headcount of staff engaging in research and development, and at the same time, provide them with quality training in order to continue to further our research and development efforts, among others, in the paper-based packaging business for household appliances. We have commenced the construction of a new building to be used as our Group's research and development centre in Zhongshan Guangdong Province, the PRC near our production base with a view to centralise our research and development activities. Furthermore, our Group will purchase and upgrade our equipments in order to strengthen our capabilities in product testing, design, research and development.



## BUSINESS

In addition, we realise the value of collaboration between a production corporation and tertiary institutions and established research institutions. We had, through Yong Fa Paper, collaborated in the past with South China University of Technology (華南理工大學) in respect of certain patents and technology know-how in the paper production process. We anticipate to expand our research and development capabilities by forming strategic alliance with tertiary institutions and established research institutions in the future, which will be able to provide us with readily available technical expertise and would thus bring new improvements to, among others, our operation, in particular product development, production efficiency and quality control.

Our Directors believe that, by continuing investing on research and development, our production capacity and efficiency will be enhanced and we will be able to provide a more diversified range of products.

### **To fully implement an improved ERP system for better management control and to enhance corporate governance**

With the expansion and development of our Group's production base, in order to streamline our internal control, to allow full integration of our various production facilities and to improve the information technology management for better operation management, our Group plans to cooperate with a leading software development company in the PRC for the design and develop of an ERP system that is tailored for our Group. The ERP could enable our Group's management to exercise more rigorous and efficient control over our Group's operation and lay a solid foundation to ensure the maintenance of our economic efficiency.

### **OUR PRODUCTS**

The principal products of our Group are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products including honeycomb paper-based products; and (ii) corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes and is sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely, Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai)). The following table sets forth a breakdown of our Group's revenue by products during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
							(unaudited)			
<b>Revenue by product</b>										
Paper-based packaging products	297,989	43.3%	371,571	44.4%	388,497	52.3%	275,431	51.8%	422,635	55.7%
Corrugated medium paper	<u>389,556</u>	56.7%	<u>464,838</u>	55.6%	<u>354,854</u>	47.7%	<u>256,135</u>	48.2%	<u>335,526</u>	44.3%
<b>Total</b>	<u><u>687,545</u></u>	100.0%	<u><u>836,409</u></u>	100.0%	<u><u>743,351</u></u>	100.0%	<u><u>531,566</u></u>	100.0%	<u><u>758,161</u></u>	100.0%

**A. Paper-based packaging products**

The key products of our paper-based packaging products are corrugated cartons and honeycomb paper-based packaging products.

Corrugated cartons produced by our Group can be used as packaging materials for various products. It makes use of corrugated paperboard which is die-cut into the required shape and size, then folded and glued to form a container box. Moreover, to cater for consumer product packaging, our Group offers colour cartons for which we provide colour printing services of logos, brands or graphics on corrugated cartons according to customers' specifications to enhance the appearance to attain marketing and advertising purposes. Our Group leverages our in-depth knowledge and experience to provide, or advise our customers on, the selection of corrugated paperboards and the structural design of corrugated cartons with an aim to provide them with protective, space and cost saving and eye-catching packaging products.

Our Group also manufactures and sells honeycomb paper-based products, which mainly includes honeycomb paper-made pallets, honeycomb cardboards and paper edge boards. Such products are normally sold together with corrugated cartons. We started the commercial production of honeycomb paper-based products in December 2010, and we anticipate our sales of honeycomb paper-based products will become an important drive to our revenue growth in the near future.

With the special design of the honeycomb structure, our products can easily meet the requirement of anti-vibration for use in dynamic transport of goods. Honeycomb cardboards provide high stability and surface quality and may therefore be applied to packaging high-value goods and displaying advertisement. In packaging applications, these bio-degradable paper honeycomb materials are used to replace products such as foam and plastic materials as inner support packaging materials for better crash absorption. They are also of high-strength, with great elasticity, and are also shock-proof, moisture-proof and heat-insulated.

**B. Corrugated medium paper**

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, our Group also manufactures high-strength corrugated medium paper as well as high-strength and low quantum corrugated medium paper of different sizes, thicknesses and strength so as to tailor solutions to our customers' specifications, which include Grade AA corrugated medium paper of 100 g/m<sup>2</sup> to 180 g/m<sup>2</sup> and Grade C corrugated medium paper of 75 g/m<sup>2</sup> to 100 g/m<sup>2</sup> principally produced by our Group. Based on the quality of our corrugated medium paper, mainly determined by its strength or its sustainability to pressure or stretching, we classify our corrugated medium paper into two grades, namely, Grade AA and Grade C, with the former signifying better quality.

In February 2009, through our effort in research and development, we developed corrugated medium paper of 75 g/m<sup>2</sup>. We believe we are one of the few manufacturers in the PRC who is currently manufacturing corrugated medium paper of 75 g/m<sup>2</sup>, which is believed to be ideal by offering secured yet cost effective packaging solutions for our customers' products.

Yong Fa Paper plays as an important part within our operations by satisfying the operation needs of Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai) and generating stable revenue to our Group by selling its quality corrugated medium paper to third

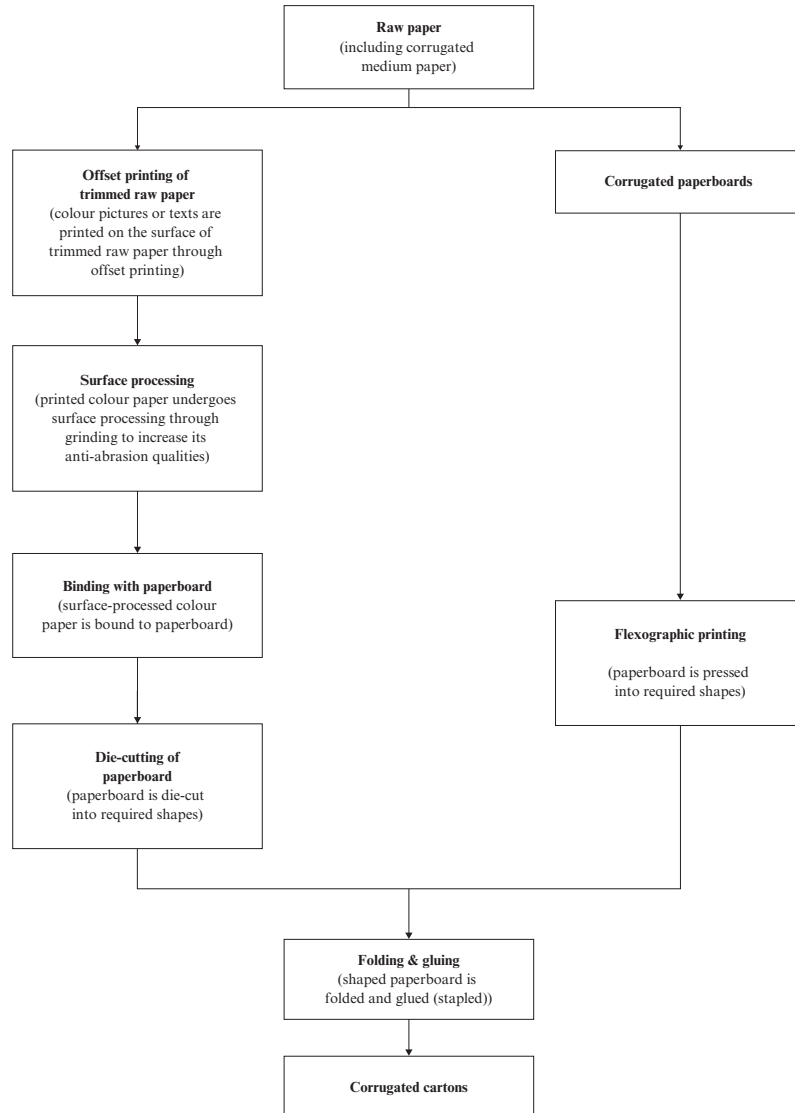
parties. Our Group prioritises internal sourcing of corrugated medium paper and also sells corrugated medium paper to third parties. Approximately 85%, 87%, 78% and 78% of the corrugated medium paper produced by our Group was sold to third parties during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

## **PRODUCTION**

Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper, and production of paper-based packaging products which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment. Our Group currently has a comprehensive production base in Southern China, which produces paper-based packaging for household appliances, while also produces high-strength corrugated medium paper.

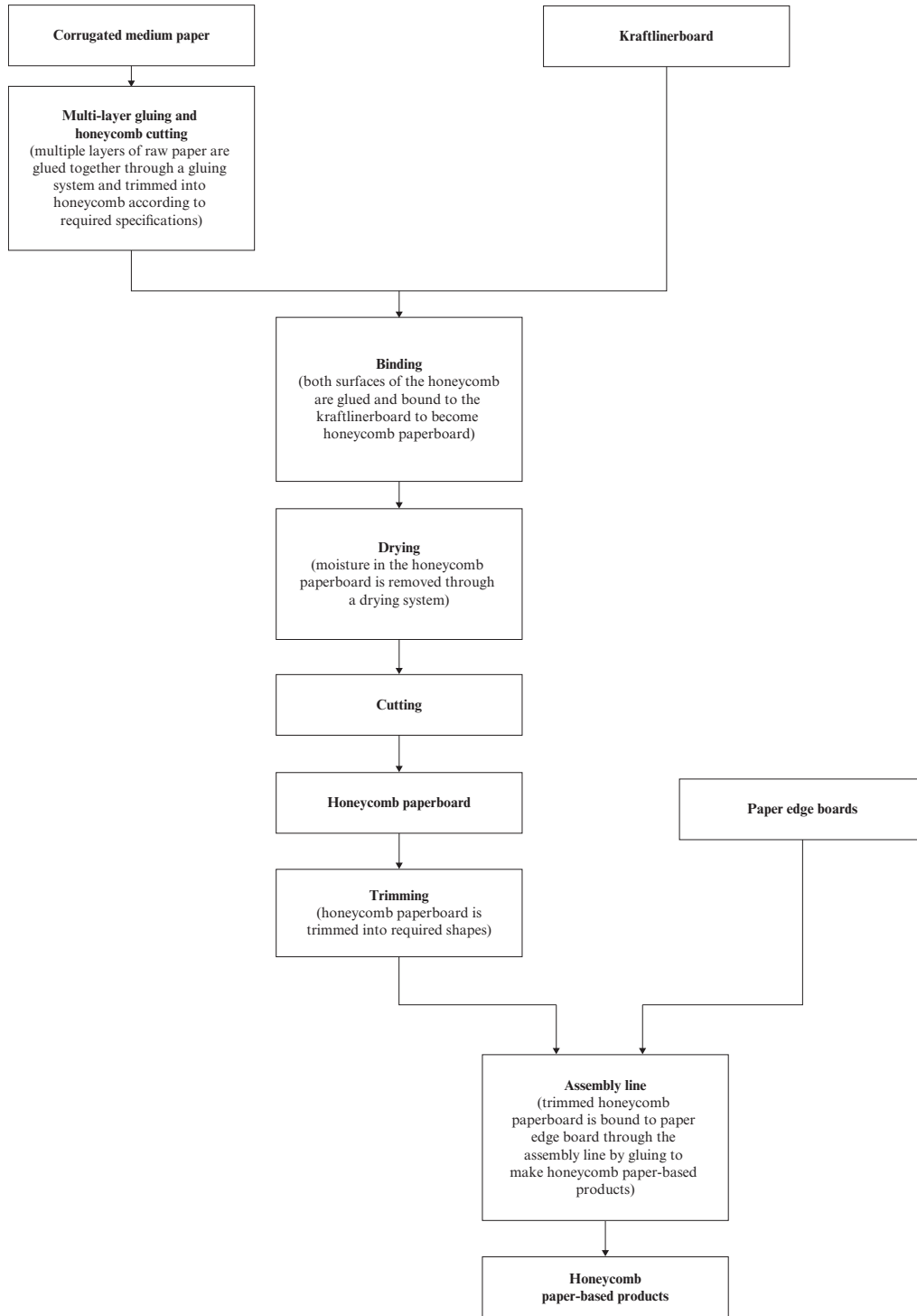
The charts below illustrate the key steps of the production processes of our paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and corrugated medium paper:

We produce a wide range of paper-based packaging products and advise on the suitable products to our customers in accordance with their specific needs. The production process for our paper-based packaging products starts from the manufacture of corrugated carton.

**1. Production process of corrugated cartons**

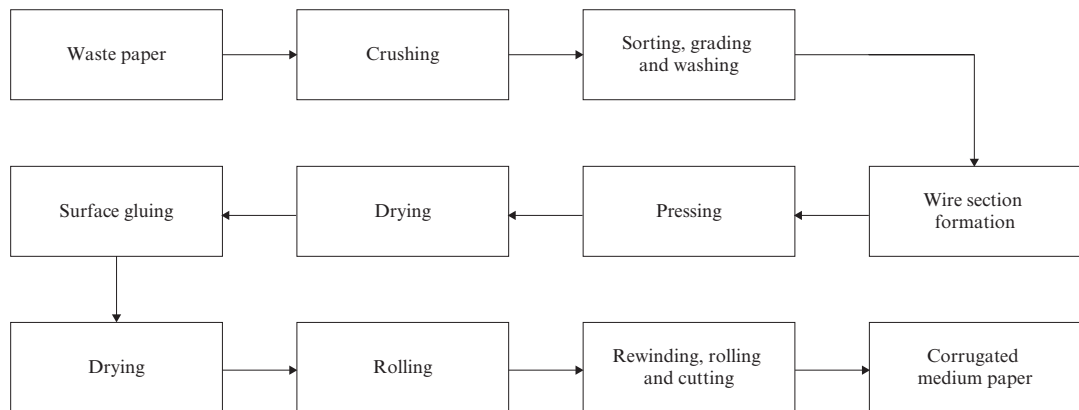
Our corrugated carton is produced by die-cutting corrugated paperboard into the required shape, and then folding and gluing it as a container box. Depending on customers' needs, our Group may also adopt flexographic printing on the surface of corrugated paperboard before die-cutting. Based on the graphic image, artwork or film provided by our customers, our Group may also perform offset printing. Offset printed paper will go through the procedures such as varnishing and lamination, and will then be bound to the paperboard and will be subsequently die-cut into the required shape, folded and glued into corrugated cartons.

2. Production process of honeycomb paper-based products





**3. Production process of corrugated medium paper**



- **Crushing:** the waste paper is crushed in the hydraulic pulper and waste paper fibers are dispersed under mechanical and hydraulic force to mix with water and form waste pulp.
- **Sorting, grading and washing:** impurity substances in the waste pulp, such as stones, sand, iron nails, plastic chips, plastic foam and rubber, are filtered. The waste paper fibers are graded by being separated into filament (long) and staple (short) according to their length.
- **Wire section formation:** pulp fibers are dispersed in the headbox and evenly spread on the formation wire. Moisturised paper sheets are then formed through physical filtration and dehydration and vacuum effect.
- **Pressing:** dehydration of the moisturised paper sheets continues by way of vacuum suction through mechanical pressing aided by a large-diameter roll.
- **Drying:** moisturised paper sheets are dried by evaporating the moisture in the drying cylinder using steam as the source of heating.
- **Surface gluing:** special rubber-based liquid is evenly spread on the surface of the paper sheet by the gluing machine to give the paper water resistance and enhance its surface strength and pressure resistance.
- **Re-drying:** the paper sheets are again dried by steam to evaporate the moisture caused by the rubber-based liquid in the surface gluing process.
- **Rolling:** large rolls are obtained by rolling paper sheets in the roll machine.
- **Rewinding and cutting:** large rolls are cut into different measurements according to customers' specifications and rewound to form the end product of corrugated medium paper roll.

The manufacturing process of high-strength corrugated medium paper begins with sourcing of waste paper. Collection of waste paper within the region is through one of our subsidiaries, Zhong Tang Recycling, whereas Yong Fa Paper sources raw materials mainly from Hong Kong and overseas. Paper is then placed onto our Group's corrugated medium

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## BUSINESS

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paper production lines for recycling and production. The production processes are highly automated. Our corrugated medium paper is well known for its high-strength and low quantum that serves as high-strength raw materials for us and other manufacturers for the production of paper-based packaging products and has the effect of reducing the amount of raw materials used during the production of high-strength paper-based packaging products.

### Production facilities

As at the Latest Practicable Date, our Group carried out our production activities in our paper production plant in Zhongshan, Guangdong Province, the PRC and our four paper-based packaging processing plants in Zhongshan and Zhuhai, Guangdong Province, the PRC, respectively, occupying a total gross floor area of approximately 178,090 sq.m., details of which are set forth in the table below:

Production plants	Areas of the plants	Principal products
A. Paper-based packaging products		
Zheng Ye Packaging (Zhongshan) Plant A	13,709 sq.m.	Flexographic printed corrugated carton
Zheng Ye Packaging (Zhongshan) Plant B	29,240 sq.m.	Flexographic printed corrugated carton Offset printed corrugated carton
Zheng Ye Packaging (Zhuhai) Plant	29,751 sq.m.	Flexographic printed corrugated carton
Zheng Ye Alliance Packaging Plant	28,904 sq.m.	Honeycomb paper-based products
B. Corrugated medium paper		
Yong Fa Paper Plant	76,486 sq.m.	High-strength corrugated medium paper of 75 to 180 g/m <sup>2</sup>

During the Track Record Period, the demand for our products remained stable. This is mainly due to the continuous strong growth in the demand for consumer products in the PRC, which key customers of our Group are producing, and as the demand for their products remain strong throughout these years, their needs for our paper-based packaging products continue to grow.

For our four paper-based packaging processing plants, we have eight production lines, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, six of which are for the production of corrugated cartons and the remaining two are for the production of honeycomb paper-based products. Among these eight production lines, three of them were not put into operation during the Track Record Period, one for corrugated cartons and two for honeycomb paper-based products. The production line of corrugated cartons was set up in September 2010, and commenced production in December 2010. The two production lines of honeycomb paper-based products were fully set up in the first half of 2010, and began trial production on 30 September 2010 with the completion of the first sales order in December 2010. Our Directors have concluded that no impairment provision should be made for these three production lines on the basis that these production lines will benefit our Group's operations in the foreseeable future. Most of the remaining production lines attained utilisation rate of more than 70% for the period of nine months ended 30 September 2010.

## BUSINESS

The following table sets forth details of the production lines, maximum designed production capacity, actual production volume and the average utilisation rate of the respective production capacity of our Group's production plants during the Track Record Period:

### A. Production lines of paper-based packaging products:

#### 1. Production lines of corrugated cartons

##### (a) Zheng Ye Packaging (Zhongshan) Plant A

Production lines	Principal products	Maximum designed production capacity as at Latest Practicable Date	Designed production capacity (Note 1), actual production volume and utilisation rate	2007 2008 2009			Nine months ended 30 September 2010	Major supporting facilities
Production line #1 of corrugated cartons of 1.6 m	corrugated cartons	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	38,880	38,880	38,880	29,160	2 four colour flexographic printing machines
			Actual production volume (thousand sq.m.)	23,540	24,040	27,440	24,770	3 three colour flexographic printing machines
			Utilisation rate (%) (Note 2)	61%	62%	71%	85%	1 double colour flexographic printing machine

##### (b) Zheng Ye Packaging (Zhongshan) Plant B

Production lines	Principal products	Maximum designed production capacity as at Latest Practicable Date	Production volume and utilisation rate	2007 2008 2009			Nine months ended 30 September 2010	Major supporting facilities
Production line #2 of corrugated cartons of 2.2 m	corrugated cartons	15,840 sq.m./hour	Designed production capacity (thousand sq.m.)	71,280	71,280	71,280	53,460	4 four colour flexographic printing machines
			Actual production volume (thousand sq.m.)	37,960	39,730	43,970	39,740	1 double colour flexographic printing machine
			Utilisation rate (%) (Note 2)	53%	56%	62%	74%	
Production line #3 of corrugated cartons of 1.6 m	corrugated cartons	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	38,880	38,880	38,880	29,160	1 six colour offset printing machine
			Actual production volume (thousand sq.m.)	23,990	23,840	25,260	22,340	2 four colour flexographic printing machines
			Utilisation rate (%) (Note 2)	62%	61%	65%	77%	2 four colour offset printing machines
Production line #4 of corrugated cartons of 1.6 m (Note 3)	corrugated cartons	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	N/A	N/A	N/A	14,640	1 seven colour flexographic printing machine
			Actual production volume (thousand sq.m.)	N/A	N/A	N/A	10,440	1 three colour flexographic printing machine
			Utilisation rate (%) (Note 2)	N/A	N/A	N/A	71%	1 double colour flexographic printing machine

## BUSINESS

### (c) Zheng Ye Packaging (Zhuhai) Plant

Production lines	Principal products	Maximum designed production capacity as at Latest Practicable Date	Production volume and utilisation rate	2007			2008			2009			Nine months ended 30 September 2010	Major supporting facilities
				2007	2008	2009	2007	2008	2009	2007	2008	2009		
Production line #1 of corrugated cartons of 1.8 m (Note 4)	corrugated cartons	16,200 sq.m./hour	Designed production capacity (thousand sq.m.)	48,600	72,900	72,900						54,680	3 four colour flexographic printing machines 2 three colour flexographic printing machines	
			Actual production volume (thousand sq.m.)	6,210	22,610	32,040						24,570		
			Utilisation rate (%) (Note 2)	13%	31%	44%						45%		

As at the Latest Practicable Date, we had an additional production line of corrugated cartons of 1.4m with a designed annual production capacity of 45,360,000 sq.m., which commenced operation in December 2010.

### (d) Zheng Ye Alliance Packaging Plant

As at the Latest Practicable Date we had two production lines of honeycomb paper-based products of 1.6 m and 1.3 m respectively, which commenced commercial production in December 2010. The total designed annual production capacity of these production lines is 10,000,000 sq.m. of honeycomb paper-based products.

*Notes:*

- Designed capacity means the annual production capacity of a production facility. It is arrived by multiplying the estimated number of days for which the relevant production facilities are in operation in a calendar year (300 days in the case of our Group, taking into account overhaul owing to routine maintenance, replacement of corrugators and other factors arising in the ordinary course of production) by the average operating speed per minute of the production facility and the average width of paper used in production.*
- For the production of paper-based packaging products, we can ascertain the designed production capacity of the production lines as each production line is used to produce a specific type of paper-based packaging products with pre-determined design and size specification, and adjustment to the mechanical mould and tooling of such production lines will be required from time to time, and hence, it would be most reliable and accurate to measure the utilisation rates by the actual production volume against the designed production capacity.*
- Production line #4 at Zheng Ye Packaging (Zhongshan) commenced production in May 2010. The production capacity from May to September 2010 was calculated on the basis of 113 days in operation.*
- Production line #1 of Zheng Ye Packaging (Zhuhai) commenced production in April 2007. The production capacity from April to December 2007 was calculated on the basis of 200 days in operation. The utilisation rate for this production line was relatively low during the Track Record Period because it is mainly designed and installed to serve our Group's customers in food condiment segment, and therefore it is not cost effective to adjust the production mode from time to time for the production of other paper-based packaging products with different requirements for the customers in other segments. As we anticipated the continuing increase in demand for paper-based packaging products in food condiment segment during the Track Record Period, we did not carry out the necessary equipment optimisation to cater for the production of paper-based packaging products for customers in other segments, and therefore this production line had not been fully utilized to its optimum capacity. In order to improve the utilisation rate of this production line, we have adjusted the customer composition of Zheng Ye Packaging (Zhuhai) by serving more household air-conditioners manufacturers. This has proven to be effective as the utilisation rate for the last quarter of 2010 has risen to 86.5%, and the utilisation rate for the year 2010 was improved to 66.6% as a result of the adjustment.*

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## BUSINESS

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Our Group anticipates future growth in the demand of the paper-based packaging products sector in the next three years, as indicated in the Packaging Report (details of which have been disclosed in the section headed “Industry overview” in this prospectus), and to capture such expected growth, we intend to, in addition to utilising our existing spare capacity and increasing the utilisation rate of our production lines, increase our production capacity by such means as disclosed in the paragraph headed “Business strategies — To establish new paper-based packaging production bases to achieve regional development — Expansion plan” in this section.

### 2. *Production line of corrugated medium paper — Yong Fa Paper Plant*

We have one production line with an aggregate annual designed capacity of approximately 220,000 tonnes corrugated medium paper, comprising three paper making machines and pulp feeding systems. We are in process of setting up the fourth paper making machine with an annual designated capacity of approximately 80,000 tonnes of 65 to 95 g/m<sup>2</sup> high-strength corrugated medium paper, which is scheduled to commence its operation in the second half of 2011. The paper making machines in operation attained an effective operating ratio of not less than 90% for the period of nine months ended 30 September 2010. All pulp feeding systems and paper making machines are supported by automated online quality control to ensure effective quality assurance for the products.

The following table sets forth data of our Group’s paper making machines housed in Yong Fa Paper Plant as at the Latest Practicable Date:

Paper making machine	Principal products	Annual designed production capacity (tonne)	Date of commencement of production
Paper making machine #1	75 to 90 g/m <sup>2</sup> high-strength corrugated medium paper	60,000	April 2004
Paper making machine #2	100 to 180 g/m <sup>2</sup> high-strength corrugated medium paper	80,000	April 2004
Paper making machine #3	75 to 110 g/m <sup>2</sup> high-strength corrugated medium paper	80,000	May 2008
	<i>(Note)</i>		

*Note: Apart from corrugated medium paper, machine #3 can also be used for the production of kraftlinerboard and other packaging paper.*



## BUSINESS

Our Group carries out monthly routine maintenance of its machines in line with industry practice, and is committed to maintaining continuous running of the paper making machines. The following table sets out the effective operating ratio (i.e. the actual and planned operating hours) of our Group's paper making machines for the periods indicated during the Track Record Period:

	2007		2008		2009		Nine months ended 30 September 2010					
	Effective operating ratio of equipment (%) <i>(Note 1)</i>	Actual operating hours	Planned operating hours <i>(Note 2)</i>	Effective operating ratio of equipment (%) <i>(Note 1)</i>	Actual operating hours	Planned operating hours <i>(Note 2)</i>	Effective operating ratio of equipment (%) <i>(Note 1)</i>	Actual operating hours	Planned operating hours <i>(Note 2)</i>	Effective operating ratio of equipment (%) <i>(Note 1)</i>	Actual operating hours	Planned operating hours <i>(Note 2)</i>
Paper making machine #1 <i>(Note 3)</i>	97.68%	8,022	8,213	91.74%	7,534	8,213	85.91%	7,055	8,213	98.44%	5,399	5,485
Paper making machine #2	89.19%	7,325	8,213	85.38%	7,012	8,213	87.68%	7,201	8,213	91.57%	5,640	6,159
Paper making machine #3 <i>(Note 4)</i>	—	—	—	94.56%	5,177	5,475	88.81%	6,894	7,763	90.56%	5,374	5,934

*Notes:*

- Effective operating ratio of equipment is arrived at by expressing actual operating hours as a percentage of planned operating hours. The designed production capacity of each of our paper-making machines will vary based on different market standards of weight and quality of medium corrugated paper to be produced. We are required to adjust the mechanical mould and tooling of each machines based on the expected market demand of particular type of medium corrugated paper from time to time, and it is thus difficult to set a planned production capacity for each machine. Hence, it is more reliable and accurate to measure the utilisation rates in terms of effective operating ratio by the actual operating hours against planned operating hours;*
- The number of planned operating hours includes hours of overhaul for scheduled maintenance and equipment upgrades;*
- Paper making machine #1 was overhauled for 675 hours in February 2009 for technology upgrades relating to the production of 75g/m<sup>2</sup> corrugated medium paper;*
- Paper making machine #3 was overhauled for 450 hours in May 2009 for technology upgrades relating to trial production of kraftlinerboard; and*

Our management understands and appreciates that production of corrugated medium paper and paper-based packaging products is capital intensive, and we are committed to investing resources to ensure the efficiency of our production facilities. During the Track Record Period, we invested a total of approximately RMB238.2 million in upgrading purchasing plant and machinery, which mainly included offset printers all imported from Germany and advanced flexographic printing presses available in the PRC. A new flexographic printing machine, with high resolution and high capacity, could produce fine colour corrugated carton, and can operate at an optimal speed of 250 pieces of corrugated paperboard per minute.

As at the Latest Practicable Date, our Group had a team of about 108 service technicians to maintain and repair our machinery and equipment, which generally have an average life cycle ranging from 5 to 22 years. Our Group also procures maintenance and inspection services from suppliers of our key machinery and equipment in order to ensure their proper operation.

During the Track Record Period, our Group had not suffered any losses or claims arising from material disruption to our operations.

**Supporting facilities**

As at the Latest Practicable Date, our Group had the following major supporting facilities:

- **truck fleets** — Each of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Yong Fa Paper has its own truck fleets, which not only ensure efficient and customer-specific delivery services, but also enable our Group to effectively control and lower our transportation costs. Our Group owned 17 trucks, 21 trucks, 24 trucks, and 24 trucks for the three years ended 31 December 2009 and nine months ended 30 September 2010. The transportation costs incurred for engaging third party transportation companies accounted for approximately 44%, 29%, 25% and 27% of our total transportation costs for the corresponding period;
- **heat and electricity co-generation plant** — Yong Fa Paper has its own heat and electricity co-generation plant located in Zhongshan, Guangdong Province, the PRC, with an aggregate installed capacity of 33 MW. The heat and electricity co-generation plant provides both electric power and steam for its operation of paper manufacturing. Because of its ability to provide heat-electricity combined supply for our consumption, our Group achieves costs saving as compared to purchase costs from other utilities providers. Despite this, our Group as a whole still has to purchase electricity from third parties as a prudent measure against any interruption of electricity supply by Yong Fa Paper and also for the operations of other subsidiaries located in other parts of Zhongshan and Zhuhai, Guangdong Province, the PRC. Our Group did not purchase steam from third parties during the Track Record Period. The electricity expenses amounted to approximately RMB2.8 million, RMB6.3 million, RMB5.0 million and RMB4.5 million for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively, as the transmission of the surplus electricity from the heat and electricity co-generation plant to other subsidiaries would not be cost efficient when comparing to purchasing the electricity from third parties.

As advised by our legal advisers as to PRC law, Zhong Tang Shi Ye (before de-registration following completion of the merger by absorption by Yong Fa Paper) and Yong Fa Paper (as surviving entity following its merger by absorption of Zhong Tang Shi Ye) obtained all relevant licences and permits for the co-generation of heat and electricity for its own use. As at the Latest Practicable Date, Yong Fa Paper has been granted the licences for power generation due to the change in the entity as a result of the merger by absorption.

During the Track Record Period and up to 31 December 2010:

- we supplied some of the electricity we generated to the regional power grid operated by licensed power supply enterprise which will then supplied and sold the electricity onward to the end-users. As advised by our legal advisers as to PRC law, the supply is permitted under the PRC laws and regulations and we do not have to obtain any electricity supply licenses for such supply.
- we also, at the request of the local government for the general benefits of the community, supplied electricity to third parties where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by the licensed power grid suppliers in these areas. As advised by our legal advisers

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## BUSINESS

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as to PRC law, we did not obtain the relevant electricity supply licence for such supply and sale of electricity, however, as the supply and sale was made at the request of the local government for the general benefits of the local community, the risk of the competent PRC authority in charge taking any action against our Group for the breach is minimal in practice.

During the period from 8 September 2010 and up to the de-registration of Zhong Tang Shi Ye on 28 October 2010 and the period from 28 October 2010 to the end of 2010, the supply of electricity by Zhong Tang Shi Ye and Yong Fa Paper as mentioned above was beyond their respective business scope as permitted under their respective business licence, which is in violation of the relevant PRC laws in requiring our business be conducted within the business scope as permitted under the business licence. As advised by our legal advisers as to PRC law, as the supply was made at the request of the local government for the general benefits of the local community, the risk of the competent PRC authority in charge taking any action against our Group for the breach is minimal in practice. As confirmed by the relevant competent PRC authorities, no action will be taken against our Group for the violation.

The earnings generated from the sale of electricity to the third parties during the Track Record Period were approximately RMB4.6 million, RMB4.5 million, RMB6.2 million and RMB1.7 million respectively. Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties and the regional power grid since 1 January 2011.

As advised by our legal advisers as to PRC law, saved for the above failure in obtaining the relevant license and permits for the supply of electricity to third parties during the Track Record Period and up to the date of its de-registration on 28 October 2010 and that such supply was beyond its business scope for the period from 8 September 2010 and up to the date of its de-registration on 28 October 2010, Zhong Tang Shi Ye was not involved in any material non-compliance, claims or litigations prior to its de-registration in October 2010.

- **waste water treatment system** — the production facilities of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Yong Fa Paper have implemented the waste water treatment system to ensure that our emission of waste water complies with the local laws requirement and assists with the reduction of our Group's water consumption;
- **shipping pier** — we have our own shipping pier at Zhongshan, Guangdong Province, the PRC next to our Group's paper production site. Our Group uses the berth mainly for delivery of coal used for power generation at our production facility. We also use it to receive direct delivery of waste paper imported from Hong Kong.

All these supporting facilities contribute to the cost savings and improve our Group's capability and control over its business and enhance our flexibility in our operations.

## **SALES AND MARKETING**

### **Sales and marketing**

Each of our main stream of businesses, namely the paper-based packaging products and corrugated medium paper, has its own dedicated sales department specialising in the sales of our paper-based packaging products and corrugated medium paper.

Sales of our paper-based packaging products are mainly conducted through our sales team based in our Group's packaging division headquartered in Zhongshan, Guangdong Province, the PRC. The centralisation of our sales activities facilitates the control of sales and the development of marketing strategy for various subsidiaries of our Group with a current focus in the Pearl River Delta region of the PRC.

Our sales team for corrugated medium paper is also based in Zhongshan, Guangdong Province, the PRC. With our established product brand name, potential customers looking for quality corrugated medium paper will approach our sales team. We will continue to optimise our customer mix to ensure the overall effectiveness of our Group.

Our sales force was staffed with 62 employees, 53 of them were sales representatives for our paper-based packaging products, and 9 of them were designated for the sale of our corrugated medium paper products as at the Latest Practicable Date. The sales representatives are mainly responsible for handling enquiries and orders from customers, coordinating with our Group's production department on product requirements and delivery, and providing after-sales services, including addressing enquiries on the quality of our products and receiving feedbacks from our customers. As an established brand within the industry, our Group is able to attract new business based on our reputation and ability to provide quality products. We sell most of our corrugated medium paper to manufacturers of paper-based packaging products; and our paper-based packaging products to manufacturers of consumer products in various industries such as household appliances, food condiment, motor bikes and information technology products. As we conduct our sales through our sales team, we are able to reduce costs payable to the intermediaries, obtain direct market information and provide better after-sales service to our customers.

Our sales staff are remunerated with a monthly basic salary. At the end of each year, we will adjust the salary of our sales staff that commensurate with their performance, including revenue collection from customers and quality of service.

For the three years ended 31 December 2009 and nine months ended 30 September 2010, we had a total of 333, 274, 331 and 346 customers respectively, most of whom had an average of three to seven years of business relationship with our Group. During the Track Record Period, the major customers of our Group's paper-based packaging products were manufacturers of household appliances and food condiment in the PRC. The major customers of our Group's corrugated medium paper were manufacturers of paper-based packaging products in the PRC. During the Track Record Period, our Group had not suffered any losses or claims resulting from default by our customers.

## BUSINESS

The following table shows the breakdown of our Group's sales of paper-based packaging products to manufacturers of household air-conditioners, small household appliances and food condiment in the PRC during the Track Record Period:

Customer segment	2007		Year ended 31 December				Nine months ended	
			2008		2009		30 September	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
Household air-conditioners	167,406	56%	185,907	50%	185,845	48%	253,023	60%
Small household appliances	25,909	9%	66,960	18%	82,216	21%	80,731	19%
Food condiment	43,995	15%	64,431	17%	77,096	20%	56,096	13%
Others	60,679	20%	54,273	15%	43,340	11%	32,785	8%
Total	<u>297,989</u>	<u>100%</u>	<u>371,571</u>	<u>100%</u>	<u>388,497</u>	<u>100%</u>	<u>422,635</u>	<u>100%</u>

### Sales and marketing strategies

Our sales team is also responsible for conducting marketing activities and soliciting new customers. As we are aware of the importance of providing suitable products that satisfy our customers' changing demands and requirements, our sales and marketing activities are customer-oriented. During the Track Record Period, our Group conducted the following marketing activities:

- (i) **Customer visits:** our Group's sales and marketing team regularly visits our customers to enable them to understand our products and our competitive advantages and to maintain good business relationship with them, collecting feedback on our Group's products as well as trends of packaging need in the process. As we select our customers based on their respective backgrounds and creditworthiness, we believe that such regular visits will enable us to provide response to their procurement needs and understand customers' trading conditions in a timely manner.
- (ii) **Other promotional channels:** we carry out our marketing activities through other means, including promoting our latest information and our products through our website ([www.zhengye-cn.com](http://www.zhengye-cn.com)), and participating in trade exhibition or fair, where possible, to enhance our profile. Apart from participating in trade exhibition, regarding our paper-based packaging products, we also invite potential customers to visit our production plants and promote our products to the customers. For corrugated medium paper, we will visit existing and potential customers and despatch brochure introducing our products.

In addition to the abovementioned strategies, we also secure new customers through referrals from our existing customers, many of whom made recommendations based on their positive view on our product quality, efficient services and competitive pricing. Our Directors consider that this strategy by word of mouth is effective, though passive. Apart from creating stronger bonding and better relationship between our Group and our customers, this strategy helps expand our Group's customer base and this is a strong driver for us to keep up our product quality.

**Pricing**

Generally, we determine the price of our products with reference to a number of factors, including the estimated cost to be incurred by our Group (such as cost of raw materials, labour, distribution and overheads), target profits, prevailing market price and our relationship with the customers. Our senior management normally review the price on a monthly basis to allow us to provide preliminary quotation to our major customers based on their latest purchase forecasts.

Our Group has adopted a cost-plus pricing model for our paper-based packaging products whereby the selling price for such products was determined with a mark-up over cost of major raw materials with reference to the prevailing market price of such raw materials at the time of entering into contracts with the customers and subject to negotiation with the respective customers; whereas for our corrugated medium paper, the selling price is set by our management based on cost-plus pricing strategy with reference to the prevailing market price of the products and our costs of sales. In general, our Group is able to pass the risk of increase in raw materials costs to our customers for the paper-based packaging products, but not for the corrugated medium paper.

We believe that because of our established brand name in the domestic market in the PRC and as one of the market leaders in terms of product quality, we are able to sell our products at a competitive price when compared to other PRC domestic industry competitors.

**Customers**

The target customers of our paper-based packaging products are large scale manufacturers of household appliances, food condiment, information technology and consumer electronics manufacturers in the PRC. Our Group intends to build long term relationships with them, and adopts the system of placing orders for individual batches of purchase in our business. In addition, we have established a stable corrugated medium paper customer base, which we also adopt the sales model of orders for individual batches. Currently, we manufacture and sell corrugated medium paper and paper-based packaging products, major customers of which are manufacturers of corrugated paperboard and cartons and consumer products in various industries such as household appliances, food condiment, motor bike and information technology products. Our Group has established long term business relationship of approximately seven years with our major customers, such as Gree, Midea and Galanz, all of whom are the major household appliances manufacturers in the PRC.

Among these various industries, household appliances, especially household air-conditioners, is our focused market and we manufacture corrugated cartons for them, as our Directors believe that the nature our paper-based packaging products align with their sales direction, given the increasing demand for environmentally friendly household air-conditioners recently.

During the Track Record Period, our production for paper-based packaging products is driven by sales and all our Group's sales were conducted on the basis of receipt of purchase orders; whereas our sales for corrugated medium paper is driven by our production volume of various products, the mix of which was based on our estimation of market demand for these papers. To facilitate the planning of material procurement and production schedule of our Group, the sales and marketing team has maintained close communication with our major customers on their purchase forecasts and preliminary quotations of our Group.



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## BUSINESS

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For the three years ended 31 December 2009 and the nine months ended 30 September 2010, sales to our Group's five largest customers represented approximately 27.2%, 31.1%, 40.6% and 44.8% of our Group's total revenue respectively. Our five largest customers are manufacturers of household appliances and food condiment, including Gree, Midea and Galanz. During the same period, sales to, Gree, our Group's largest customer represented approximately 14.2%, 12.3%, 14.3% and 19.0% of our Group's total revenue respectively.

The percentage of sales to Gree, Midea and Galanz during the Track Record Period was as follows:

	Year ended 31 December			Nine months ended
	2007	2008	2009	30 September 2010
	<i>% to</i>	<i>% to</i>	<i>% to</i>	<i>% to</i>
	<i>total sales</i>	<i>total sales</i>	<i>total sales</i>	<i>total sales</i>
Gree	14.2	12.3	14.3	19.0
Midea	5.3	6.1	6.8	8.9
Galanz	2.3	6.6	10.9	10.3

None of our Directors, their respective associates or Shareholders who will own more than 5% of the issued share capital of the Company, so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue had any material interest in any of our Group's five largest customers during the Track Record Period.

### Sales terms and credit policy

During the Track Record Period, all of our Group's sales were denominated either in RMB, HKD or USD. Sales were normally settled by way of bills, telegraphic transfer remittance, cheque or cash on delivery.

We normally enter into framework sales contracts with our major customers which normally set out the delivery arrangement as well as the quality and specification as required by the customers for a term of one year. The framework sales contracts will not specify the minimum purchase volume and price. Our legal advisers as to PRC law have advised us that the provisions of the framework sales contracts are not in violation of applicable PRC laws and regulations and therefore are valid, binding and enforceable against the parties to the contract under the PRC laws. Either party to the said contract is entitled to hold each other liable for their breach of the framework sales contracts in accordance with the terms of the contract and the PRC contract law. For instance, according to the terms of some framework sales contracts entered into by our Group, our customers are entitled to take action against us, say, termination of the framework sales contract, cancellation of orders already placed or to be placed in whole or in part without giving any notification thereof, refusal to accept the delivery of goods or returns made by us, claiming compensation for the losses caused by the breach, deducting the amount claimed from the money to be payable by our customers if we are in breach of the framework sales contract. On the other hand we are entitled to suspend the delivery of the goods, claim the delay penalty as agreed and the compensation for the losses caused thereby, or terminate the contract when our customers are late in paying us for the goods in accordance with the provisions of other framework sales contracts.



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## BUSINESS

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In addition, in order to foster business relationships with our customers and at the same time protect our interests, our Group adopts credit policies for different customers. We principally refer to the trading and credit history of the relevant customers, their business relationship with our Group, and site visits, interviews, public information searches or investigations would be conducted by our Group on our customers. Credit period granted by our Group to our paper-based packaging product customers were 30 to 120 days and our corrugated medium paper customers were 30 to 75 days, following the day of delivery. Our sales team would refer to the weekly reports prepared by the accounting department which summarize the credit status of our customers, and follow up any outstanding payments once they fall due.

We also adopt a credit control measure. Our Group regularly prepares overdue report of trade receivables and closely monitors our collection status. When trade receivables become overdue, the responsible sales and marketing staff of our Group will contact the respective customers to follow up the collection status. Overdue reports are regularly reviewed and followed up by the responsible staff with the respective customers. Based on the results of discussion with problematic customers and our management's experience, our Group will assess if it is necessary to write-off or make provision for bad or doubtful debts and/or to terminate business relationship with those customers with long overdue balances of trade receivables. Our Group may reject purchase orders from the respective customer until full settlement of all outstanding invoices.

With the rising portion of revenue generated from the paper-based packaging products, we may face a risk of longer payment cycle as a result of longer credit period we grant to the customers of our paper-based packaging products. The longer credit period offered to our paper-based packaging products customers will likely to have an adverse impact on our working capital position.

As at each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, provision for trade receivables of approximately Nil, RMB0.2 million, RMB1.0 million and RMB1.0 million, representing approximately Nil, 0.1%, 0.5% and 0.4% of our Group's trade receivables respectively, have been made. During the same period, no bad and doubtful debts have been written off. Our Group may consider taking legal actions against customers with long outstanding balance with our Group. No legal action which has material adverse impact on our Group's financials and operations has been taken by our Group during the Track Record Period. Our Group considers that it has adopted an effective credit control measure and has not encountered material difficulty in the enforcement of debt collection during the Track Record Period.

Except for a customer of Yong Fa Paper who has defaulted in the amount of approximately RMB1.0 million which we have written off in December 2010, our Group did not experience any other default or withdrawal or request for early payment of bank borrowings, cancellation of orders, bankruptcy or default on the part of any customers and/or suppliers during the Track Record Period.

### **PROCUREMENT OF RAW MATERIALS AND SUPPLIERS**

The principal raw material required for the production of high-strength corrugated medium paper is waste paper, and the main raw material for the production of paper-based packaging products is raw paper, which can be of various forms including kraftlinerboard and corrugated medium paper. They form the inner, outer and fluting layer of a corrugated paperboard. Local waste paper collectors are our main source of purchases for waste paper, and we also purchase waste paper from overseas suppliers.

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## BUSINESS

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Total cost of raw materials, including waste paper and raw paper purchased by our Group accounted for approximately 80.1%, 75.1%, 72.3% and 76.0% of our total cost of sales for the three years ended 31 December 2009 and the nine months ended 30 September 2010 respectively.

### Waste paper

Waste paper forms the largest raw materials component in our Group's paper production process. Our Directors believe that, as this category of raw material is the most important ingredient, the ability to source large volumes of waste paper under stable, long-term arrangements is critical to our success.

In order to maintain a stable supply and a competitive cost of waste paper, our Group sourced waste paper both within the PRC and from overseas during the Track Record Period. Zhong Tang Recycling, which has been registered with the competent authority as 再生資源回收經營者 (Recycled Resources Collecting Operator\*), plays a vital role in our operational model as it is primarily responsible for the collection of domestic waste paper from a wide range of sources, including the shopping malls, community, and individual collectors within the proximity of our paper production plant in Zhongshan, Guangdong Province, the PRC and to supply the waste paper to Yong Fa Paper for its production of corrugated medium paper. Zhong Tang Recycling has in average recruited 116, 118, 54 and 101 independent service individuals for each of the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively, for collecting domestic waste paper in the Zhongshan region. Our legal advisers as to PRC law have advised that for individual waste paper collectors, such as scavengers, they are not required to obtain any licences or to effect filing and registration for the collection and supply of waste paper in the PRC.

Apart from relying on the supply from Zhong Tang Recycling, Yong Fa Paper also sources waste paper for its own production purpose from local packaging products manufacturers. As advised by our legal advisers as to PRC law, such local packaging products manufacturers are not "Recycled Resources Collecting Operator" and thus not required to obtain any licence for that purpose. Yong Fa Paper further imports waste paper from Hong Kong and overseas. As advised by our legal advisers as to PRC law, each overseas importer of waste paper importing waste paper to the PRC from outside of the PRC is required to obtain a Licence of Registration for Overseas Supplier Enterprise of Imported Scrap Materials (進口廢物原料境外供貨企業註冊證書) issued by General Administrative of Quality Supervision, Inspection and Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗防疫總局) and have the imported waste paper inspected by the competent PRC authority whom will then issue the 裝運前檢驗證書 (Pre-Packing and Shipping Inspection Certificate\*) prior to importing the same to the PRC. Yong Fa Paper, shall then have to present the copies of the aforesaid documents, together with its Import Licence of the People's Republic of China for Automatic-Licensing Solid Waste That Can Be Used as Raw Materials (中華人民共和國自動許可進口類可用作原料的固體廢物進口許可證) issued by MEP and other relevant documents to obtain clearance to receive the imported waste paper. On this basis, our Directors are of the view that the overseas suppliers of waste paper of our Group have obtained all the requisite licenses and certificates for importing waste paper to the PRC in accordance with the PRC laws and regulations and the management of our Group will ensure that our overseas suppliers will have obtained such valid licenses and certificates before entering any transactions with them.

To select additional suppliers, our Group's sourcing department compares the quality and price of waste paper from major suppliers in the region and appraise each supplier's credentials in satisfying our requirements. Currently, the majority of our Group's waste paper comes from individual local paper collectors in Zhongshan, Guangdong Province, the PRC, as our Group has found the quality of such waste paper to be relatively more consistent compared to other sources.

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## BUSINESS

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Approximately 67%, 54%, 60% and 57% waste paper was sourced within the PRC and the remaining was from overseas during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively. During the Track Record Period, the average purchase price of the waste paper sourced within the PRC was approximately RMB1,190 per tonne, RMB1,172 per tonne, RMB824 per tonne and RMB1,200 per tonne for the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively; whereas the average purchase price of the waste paper sourced from overseas was approximately RMB1,164 per tonne, RMB1,376 per tonne, RMB841 per tonne and RMB1,185 per tonne, respectively, for the same period.

Price of waste paper is volatile in nature and is generally subject to fluctuation of the world's market conditions. Please refer to the paragraph headed "Prices of raw paper and waste paper" in the section headed "Industry overview" in this prospectus.

For the three years ended 31 December 2009 and the nine months ended 30 September 2010, amongst the cost of sales, the cost of waste paper was approximately RMB275.3 million, RMB319.7 million, RMB231.5 million and RMB232.2 million, representing approximately 60.7%, 58.0%, 53.0% and 49.4% of our Group's total raw material cost, respectively.

### **Raw paper**

We use various types of raw paper, which includes corrugated medium paper and kraftlinerboard as raw materials for our production of paper-based packaging products.

While we purchase a substantial portion of the raw paper from third party suppliers, we also purchase high-strength corrugated medium paper from Yong Fa Paper, which we believe, could provide and ensure the stable supply of quality corrugated medium paper for our paper-based packaging business. The total purchase of raw materials from Yong Fa Paper accounted for approximately 34%, 26%, 33% and 32% of the total raw materials for paper-based packaging products during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

It is our Group's objective to source corrugated medium paper, one of the major raw materials for paper-based packaging products, internally through Yong Fa Paper to Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai) for the production of the paper-based packaging products with a view to ensuring the product quality and stability of supply. Hence, our Group prioritises internal sourcing of corrugated medium paper. Our Group, however, will still purchase corrugated medium paper from third parties if any of our Group's customers require corrugated medium paper of lower quality or with such specific requirement for which we do not produce. We only consumed 1%, 24%, 10% and 4% of corrugated medium paper from third parties during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

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## BUSINESS

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For the three years ended 31 December 2009 and the nine months ended 30 September 2010, our Group's total cost of raw paper amounted to RMB137.8 million, RMB178.6 million, RMB150.1 million and RMB183.8 million, representing 30.4%, 32.4%, 34.4% and 39.1% of our Group's total purchases of raw materials for production, respectively, during these periods.

### **Other raw materials**

Our Group also uses starch, aluminum sulfate, ink, water resistant chemicals and reinforcing chemicals in our production. Currently, we source these kinds of raw materials from a number of suppliers. Our Directors consider that these materials are readily available in the market and we do not face a significant problem in sourcing these raw materials.

### **Suppliers**

In order to obtain better pricing terms from our suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials, and coal. We have a total of 415, 467, 412 and 357 suppliers for the three years ended 31 December 2009 and nine months ended 30 September 2010, respectively and they have an average of three to seven years of business relationship with our Group. As we maintain good relationship with our suppliers, we can benefit from assured quality, competitive purchase prices and in-time deliveries, which, in turn, leads to reduction of inventory costs. During the Track Record Period, we did not experience any material shortage of the principal raw materials. During the Track Record Period, our Group's major suppliers were companies selling raw paper, and waste paper and coal. As the raw materials required by our Group are not rare or difficult to source, our Directors do not anticipate any material difficulties in sourcing them. Our Group has not entered into any long-term agreements with the suppliers.

During the Track Record Period, our Group's purchases were denominated in RMB, HKD and USD. Purchases are mainly settled by open accounts with credit period ranging from 30 to 120 days upon receipt of the relevant bills from the PRC and Hong Kong suppliers. Raw materials for the paper-based packaging products would normally be settled within 30 days; whereas for the corrugated medium paper business, raw materials sourced locally would be settled by cash within 15 days of delivery, and those sourcing from overseas would normally be settled within 30 to 120 days.

For the three years ended 31 December 2009 and the nine months ended 30 September 2010, purchases from our Group's five largest suppliers accounted for approximately 33.3%, 40.6%, 52.5% and 50.9% respectively of our Group's total purchases. Purchases from the largest supplier of our Group accounted for approximately 9.3%, 11.2%, 17.6% and 15.5% respectively of our Group's total purchases during the same period. None of our Directors, their respective associates or shareholders who will own more than 5% of the issued share capital of the Company, so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue had any material interest in any of our Group's five largest suppliers during the Track Record Period.

### **INVENTORY MANAGEMENT**

Our Directors understand the importance of inventory management so as to keep our operation costs and risks at a low level, and we adopt stringent procedures to monitor the inventory levels of our raw materials, work-in-progress and finished goods, in order to balance our production needs and our exposure to changes in raw materials prices and to optimise the allocation of our internal resources.

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## BUSINESS

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Our inventory of raw materials comprises primarily raw paper and waste paper. We generally maintain raw materials at a level sufficient for the production of at least 15 days of paper-based packaging products and keeps raw materials at a level sufficient for the production of at least 10 days of corrugated medium paper. In terms of finished goods, as the paper-based packaging products of our Group will only be produced when our Group has received an order, the finished goods will be delivered to our customers' production base as soon as they are produced. For our corrugated medium paper, the finished goods will normally be sold out within 10 to 20 days after production.

As at 30 September 2010, our inventory was approximately RMB107.7 million.

We have implemented an inventory management system, which enables us to monitor the stock movement of the raw materials and work-in-progress. Our Group will monitor the stock aging analysis and performs monthly full stock takes for all inventories to assess the level of obsolete stocks. Impairment will be charged for any obsolete or damaged inventories identified during the stock takes. During the Track Record Period, our Group did not record any obsolete stocks and thus we did not made any provisions for inventory obsolescence during the Track Record Period.

As a step to enhance our inventory control, we have implemented an ERP system for our operations in Zhongshan, Guangdong Province, the PRC since 2003, to manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of our products, sales and delivery of our products through our internal transportation and delivery network.

At present, each of our subsidiaries has adopted its own ERP system to cater for its needs. To further cope with our expansion, we plan to implement a centralized ERP system which could consolidate our Group's production, streamline our operation and improve our corporate governance.

## ENVIRONMENTAL PROTECTION

We recognise the importance of environmental protection and adopt stringent environmental protection measures with a view to reducing the impact of our operations on the environment and the risk of exposure to liabilities under the prevailing PRC environmental protection laws and regulations.

Our production operations are subject to the national environmental protection laws and regulations and rules promulgated by the local governments in the jurisdictions where our production facilities are located in the PRC, including 《中華人民共和國環境保護法》(Environmental Protection Law of the PRC\*), 《中華人民共和國環境影響評價法》(Laws of the PRC on Appraising of Environment Impacts\*), 《建設項目環境保護管理條例》(Administrative Regulations on Environmental Protection for Construction Project\*), 《中華人民共和國水污染防治法》(Law of the PRC on the Prevention and Control of Water Pollution\*), 《中華人民共和國大氣污染防治法》(Law of the PRC on the Prevention and Control of Atmospheric Pollution\*), 《中華人民共和國環境噪聲污染環境防治法》(Law of the PRC on Prevention and Control of Environmental Noise Pollution\*), 《中華人民共和國放射性污染防治法》(Law of the PRC on Prevention and Control of Radioactive Pollution\*), 《排污費徵收使用管理條例》(Management Regulations or Collection and Use of Sewage Charges\*), 《中華人民共和國固體廢物污染環境防治法》(Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes\*) and 《廢物進口環境保護管理暫行規定》(Interim Provisions on Environmental Protection Management For The Import of Wastes). Please refer to the paragraph headed "Regulatory overview — Environmental protection" of this prospectus for summaries of certain PRC policies, laws and regulations applicable to paper making and printing industry.



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## BUSINESS

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We strive to conduct our business in a manner that we comply with the applicable PRC environmental laws and regulations and, to the practicable extent, minimise any adverse effect on the environment to fulfill our social responsibility as a responsible enterprise. We have obtained governmental confirmation certifying our compliance with the applicable environmental laws and regulations for our production plants.

Since 2005, Zheng Ye Packaging (Zhongshan) has been accredited with the internationally recognised ISO 14001 certification in respect of the environmental management systems.

We have conducted different measures to ensure compliance with applicable PRC laws and regulations, in particular:

- (i) checking and monitoring measures: we put in place internal procedures to conduct regular checks on our environmental management system and Zheng Ye Packaging (Zhongshan) has been in compliance with the standards of ISO 14001 and Yong Fa Paper has set up a “環保辦公室 (Green Office\*)” dedicated to design and implement environment protection measures of our Group since 2004;
- (ii) prevention of pollution: we constantly evaluate different aspects of our production process, including our facilities, raw materials, utilities and packaging materials, so as to ensure compliance with environmental regulations, we reuse processed waste water, as much as practicable to reduce pollution. We also have on-site treatment facilities for waste water, air and noise generated from our operations before they are discharged. We have also installed electrostatic precipitation and flues gas desulfurization system to ensure the gas emitted from our own coal-power generation plant comply with the national standard;
- (iii) reduce, control of discharge or emission: we reuse waste water processed by our own sewage treatment facilities, as much as practicable to reduce waste water discharge. We also recycle the substandard paper and paperboard products again as raw material for our paper making operations; and
- (iv) staff awareness: we aim at arousing the awareness for environmental protection among our staff through disseminating our environmental philosophy through training and education.

In recognition of our continuous effort in adopting environmental protection measures, Zhong Tang Shi Ye prior to its absorption by Yong Fa Paper, has been recognised as “中山市環保誠信企業” (Zhongshan City Environmental Integrity Enterprise\*) by Zhongshan Environmental Protection Bureau since 2006.

## QUALITY CONTROL

We believe that quality control is essential to the continuous growth of our business. Our Group adopts stringent internal quality control measures to ensure that products can meet the required quality standard and adhere to customers’ specifications before delivery. In addition to investing in machinery and equipment from time to time to enhance production efficiency and product quality, we have applied the quality management guidelines or principles of ISO 9001 throughout our quality control system.

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## BUSINESS

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Through the dedication of our management and staff to quality control in its business management and operations, Zheng Ye Packaging (Zhongshan) obtained the accreditation of ISO 9001 in November 2005, whereas Yong Fa Paper and Zheng Ye Packaging (Zhuhai) were accredited with ISO 9001 in February 2009 and July 2007, respectively.

We have implemented a comprehensive and effective quality control system covering important stages of the production process and other aspects of our business.

### **Raw materials**

Since the quality of our finished products is, to a large extent, determined by the quality of raw materials, all raw materials are sourced from reliable suppliers. Incoming raw materials are subject to detailed physical inspection according to our strict specifications on a random sampling basis before they are warehoused or enter into our production line.

### **Production process**

All our paper production lines are operated by highly automated quality control system which systematically monitor production parameters such as moisture, and basis weight of the sheets, thus allowing us to maintain consistent product quality, increase production efficiency and minimise disruption of the production process. In addition, we will also scrutinise our paper and paper-based packaging products for quality control purposes at milestone stages throughout the production process to minimise the chance of impact of defective production. For instance, our quality control staff will conduct regularly check to ensure that it will produce the paper and paper-based packaging products of the same specifications as ordered by our customers.

### **Finished goods**

Samples of finished goods are regularly checked by our quality control staff after the cutting process before they are forwarded onwards for packaging. We typically take samples of finished products for testing of various physical properties, including strength, thickness, water absorption ability and basis weight as applicable, to ensure that our products meet the required specifications. Our Group has set our sights in capturing orders from certain renowned customers which export their products to overseas, such as the European countries and the United States, for which we would have to meet certain compliance standards of those countries, our Group will arrange regular compliance testing on our paper-based packaging products.

As at the Latest Practicable Date, our quality control department, which is led by 16 engineers who oversee both the research and development and quality control departments, has deployed 301 staff members engaged in testing and quality control activities ancillary to our production process. We provide on-the-job training to our quality control staff from time to time to ensure that they are equipped with up-to-date knowledge to carry out their duties competently and in compliance with our quality control system implemented under the guidelines or principles of ISO 9001. We also hold monthly internal meetings amongst different departments to discuss quality control issues. Problems encountered by production staff during the production process would be discussed and appropriate steps and remedial actions will be taken to improve quality of our products and enhance efficiency of our productions in future.



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## BUSINESS

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As a result of the ongoing stringent quality control procedures, we had not experienced any significant product returns during the Track Record Period. This demonstrates that we are committed to continual improvement in our product quality. Our Directors also confirm that we had not received any material complaint on our product quality during the Track Record Period.

Our Directors believe that our Group has maintained a good reputation for product quality among our customers and taken continuous effort to be an environmental responsible organisation.

### RESEARCH AND DEVELOPMENT

Our Directors believe that continuous technical advancements in terms of processing technology and product development, so as to satisfy the needs of our customers, is one of the key drivers to future success in the paper and packaging industries, as it is constantly subject to change in terms of product quality and the demand for new specifications.

We have been dedicated to enhancing product innovation and improving production efficiency through research and development since our establishment. Our research and development initiatives focus on the improving efficiency of our production process and the productivity of the machines, the development of new products and enhancement of the quality of our existing products, and the enhancement of the ability of the production technologies in satisfying a wider range of customer requirements in a cost efficient and profitable manner. In recognition for our technological capabilities in paper making and packaging production, both Yong Fa Paper and Zheng Ye Packaging (Zhongshan) were recognised as high-technology enterprises jointly by four provincial authorities of Guangdong Province including 廣東省科學技術廳 (Guangdong Province Science and Technology Bureau\*) in November 2009 and December 2009, respectively. Our research and development capability was recognised by Guangdong Paper Industrial Research Institute (廣東省造紙研究所) which invited Yong Fa Paper to participate in the drafting and editing of the national standards of corrugated medium paper in China in 2007.

Our research and development department would team up with colleagues from other departments if and when necessary for each research and development project. Yong Fa Paper has established a 包裝用紙技術工程研發中心 (Packaging Paper Technology Engineering Research and Development Centre\*) dedicated to develop paper suitable for use as packaging material improve paper quality and the paper making process. Zheng Ye Packaging (Zhongshan) has also set up its own research and development department in 2010, named 包裝產品工程技術研究開發中心 (Packaging Products Technology Engineering Research and Development Centre\*), to strengthen our Group's research and development capability. The centre is led by a team of five experienced staff with an average of 15 years of industry experience, and among whom two are engineers. For the three years ended 31 December 2009 and the nine months ended 30 September 2010, our Group applied approximately RMB7.4 million, RMB8.6 million, RMB8.4 million and RMB5.7 million, respectively, in the research and development activities, including the development of new products and enhancement of production efficiency. In general, the budgeted research and development expenses is expected to be approximately 3% of our Group's total sales. Based on the available budget, the research and development team will decide on the number of projects to be undertaken for that year, identify the scope for each project and staff with the relevant experience from different divisions within our Group will be called upon to join the projects, under the supervision of the research and development team. The research and development team will submit costing reports of each research and development project periodically to the finance department for monitoring purpose. As at the Latest Practicable Date, our Group has applied for seven patents for paper making process. Our Group's research and development team is continuously searching for and

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## BUSINESS

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testing new raw materials and new production processes and works closely with our Group's sales team. It receives production specifications from the sales team, develops adjustments to existing products to satisfy customers' requirements and studies the feasibility of making such changes.

We value and take initiatives to collect our customers' views and feedbacks in relation to our products, which we would consider for our research and development efforts. At present, our research efforts are focusing on paper-based packaging materials which can substitute traditional packaging materials such as foam and plastic which are generally considered to cause unfavourable effects on the environment. Bringing these new products to the market will not only allow us to meet general market demand but will also enable us to diversify our product range. Capitalising on our capability in producing high-strength corrugated medium paper, we intend to produce paper-based packaging products with innovative and advanced technical properties to allow weight, raw materials and transportation costs savings in order to compete with the traditional corrugated paperboard or cartons.

In addition to developing new products, we also improve our process technology of our existing products to better meet our customers' quality standards, to improve production efficiency and techniques, and to lower the rate of raw materials consumption and waste discharge and production costs. This approach will reduce our production costs and give us a strategic advantage over many of our competitors and would also signify our efforts to conduct our business in accordance with high standards of environmental protection, in line with our environmental policies and standards.

We have in the past entered into collaboration with South China University of Technology (華南理工大學) in respect of enhancing efficiency and technology know-how in the paper making process and we value the benefits such collaboration can bring to us. We also plan to seek to expand our research and development capability by forming strategic collaboration with established academic institutions in future, which will be able to provide us with readily available technical expertise and would thus bring new progress to, among others, our operation, in particular product development, production efficiency and quality control.

### COMPETITION

We face intense competition with competitors across the PRC and elsewhere. Our major competitors include several Chinese manufacturers of corrugated medium paper and corrugated cartons. In addition, we are also competing with manufacturers of corrugated medium paper and corrugated cartons in other places, including other overseas paper mills. Price, product quality, stability in supply and being able to improve our products from time to time, our Directors believe, are the main elements to excel in this highly competitive market.

Barriers for new entrants to the paper making industry is, however, high. We believe that the high start-up cost, capital intensive nature of, environmental concerns and constraints in raw material supplies in the paper manufacturing industry all contribute significantly to such entrance barriers. Since 2007, paper making factories in the PRC were subject to stringent environmental requirements regarding the emission of waste water. In order to comply with such requirements and remain commercially viable, papermaking factories would need to upgrade or replace their papermaking machines and/or establish water treatment facilities to reduce the amount of waste water produced during the production process. Unless the production scale is sizeable, such upgrading or replacement may not be cost-effective and would result in higher production cost, thereby driving some of our peers in the industry out of the business and reducing level of competitiveness.

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## BUSINESS

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Under the PRC's foreign investment rules, foreign investments in recycled paper and paper-based packaging manufacturing business are permitted. Foreign companies may establish recycled paper manufacturing operations in the PRC in the future, in which case we may face more competition.

Despite the above obstacles in entering and staying in business in our industry, there may be certain manufacturers with substantially more capital and resources for research and development, higher production capacity and better marketing capability than those of our Group. As the PRC continues to open itself up to foreign businesses, the paper market in the PRC is expected to be impacted by an increasing number of foreign-owned enterprises in the PRC. These will further intensify competition. Our Directors are, however, of the view that given the competitive advantages of our Group, details of which are set forth under the paragraph headed "Competitive strengths" above, our Group is well-positioned to face any competition.

We strive to maintain our competitiveness through timely introduction of new products and continuous improvement of our existing products. We are the largest supplier of paper-based packaging products for household air-conditioners in the PRC in terms of production volume for the year ended 31 December 2009.

As we are located in proximity to a number of local waste paper collectors, we believe we can maintain a steady supply of waste paper for our manufacturing purposes, which our Directors consider it provides us with a competitive advantage over our competitors in recycled corrugated medium paper and paper-based packaging products industry. In addition, we strive to maintain our competitive edge through timely introduction of new products and continuous improvement of our existing products. We will continue to devote our resources to research and development for new and existing products and our techniques in the production process. With a broad range of products and our commitment to research and development, our Directors consider that we are well-positioned to establish ourselves as one of the leading suppliers of corrugated medium paper and paper-based packaging products.

Please refer to the section headed "Industry overview" in this prospectus for the discussion of the competition that we face in the markets that we operate in.

## INSURANCE

We maintain a range of insurance policies for our ongoing operations including property insurance on plants and machinery, natural disaster insurance and personal injury insurance. We also provide social insurance for our employees in compliance with the relevant PRC social security regulations, such as insurance for retirement, unemployment, sickness and industrial injuries suffered by our employees. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. Our Directors consider that our Group's insurance coverage is sufficient and in line with the normal commercial practice in the PRC. We did not experience any material industrial accidents during the Track Record Period. During the Track Record Period, our Group has not suffered any losses or claims arising from employee injury claims.

**PROPERTY****Owned properties**

As of 31 December 2010, we owned six parcels of land with a total site area of approximately 426,419 sq.m. and the buildings and structures erected thereon with a total gross floor area of approximately 120,946.43 sq.m. in the PRC. Our existing production lines, warehouses and head office premises are currently housed in these buildings. We have obtained the relevant land use rights certificates of such parcels of land and the building ownership certificates and all relevant approvals for the buildings erected thereon comprising a total gross floor area of approximately 78,880.55 sq.m. and own the full legal rights to use and assign these properties. The current usages of these properties are in compliance with the approved usages prescribed in the title documents. Our Directors consider that these properties are crucial to our operations since all of our existing operational and production facilities are housed therein.

With regard to the buildings used by us comprising a total gross floor area of approximately 42,065.88 sq.m., we have failed to obtain the relevant planning permits and construction permits in relation to their construction and/or failed to submit the construction projects for quality and completion check by the relevant PRC authorities. Please refer to the paragraph headed “Risk factors — Risks relating to our business — We face certain risks relating to the real properties we owned or leased” of this prospectus for further details and the risks that we may face as a result of such failure.

**Leased properties**

As of 31 December 2010, we leased two industrial complexes in the PRC with a total gross floor area of approximately 47,225 sq.m. from Zheng Ye Group, three plants in the PRC with a total gross floor area of approximately 12,332 sq.m. from an Independent Third Party, one warehouse in the PRC with a total gross floor area of approximately 4,392 sq.m. from an Independent Third Party, and five industrial buildings with a total gross floor area of approximately 28,904 sq.m. from an Independent Third Party. According to our legal advisers as to PRC law, each of our landlord owns the land use right of, and has the legal right to lease, the respective lands and buildings save and except those lands and buildings as more particularly stated in the paragraph headed “Risk factors — Risks relating to our business — We face certain risks relating to the real properties we owned or leased” of this prospectus. In this connection, Yong Fa Paper has obtained a confirmation letter dated 12 November 2010 from the relevant lessor, 中山市黃圃鎮工業開發有限公司 (Zhongshan City Huang Pu Town Industrial Development Limited\*) in which the lessor has undertaken to fully indemnify Yong Fa Paper for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period. Zheng Ye Packaging (Zhongshan) has obtained a confirmation letter dated 29 October 2010 from the relevant lessor, 中山市東升永勝經濟發展公司 (Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited\*) in which the lessor has undertaken to fully indemnify Zheng Ye Packaging (Zhongshan) for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period. Zheng Ye Alliance Packaging has obtained a confirmation letter dated 29 October 2010 from the relevant lessor, 中山市東升鎮白鯉村第七經濟合作社 (Zhongshan City Bai Li Town Villager Committee\*) in which the lessor has undertaken to fully indemnify Zheng Ye Alliance Packaging for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period.

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## BUSINESS

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### INTELLECTUAL PROPERTY RIGHTS

To protect our proprietary rights, we rely upon the applicable patent and trademark laws, laws relating to protection of other intellectual property rights. We own and use a number of trademarks and designs in connection with our business and seek to protect our intellectual property rights by imposing confidentiality obligations on employees in our research and development department and on our senior staff in the sales department. For details of our intellectual property rights which are material to our business, please refer to the paragraph headed “Further information about the business of our Company — 10. Intellectual property rights of our Group” in Appendix VI to this prospectus.

Our Directors confirm that, as at the Latest Practicable Date, we were not involved in any proceedings in respect of, and we have not received any notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent.

### AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of significant awards and recognitions with respect to our Group or products. Set out below are some of our major awards and recognitions:

Date of issue	Recipient	Awards or recognitions	Awarding bodies	Validity
December 2004	Zheng Ye Packaging (Zhongshan)	Best Supplier 2004 (Note 1)	Midea	Not applicable
18 November 2005	Zheng Ye Packaging (Zhongshan)	ISO 14001: 2004 Standard (Note 2)	China Quality Mark Certification Group	Three years
18 November 2005	Zheng Ye Packaging (Zhongshan)	ISO 9001: 2000 Standard (Note 3)	China Quality Mark Certification Group	Three years
November 2005	Zheng Ye Packaging (Zhongshan)	Golden Supplier 2005 (Note 1)	Midea	Not applicable
20 April 2006	Zheng Ye Packaging (Zhongshan)	China Leading Packaging Enterprise (Note 4)	China Packaging Federation	Three years
May 2006	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (Note 5)	Zhongshan Administration for Industry & Commerce	Not applicable
2 February 2007	Zheng Ye Packaging (Zhongshan)	Best Supplier 2006 (Note 1)	Panasonic Home Appliances Air-Conditioning (Guangzhou) Company Limited	Not applicable

## BUSINESS

Date of issue	Recipient	Awards or recognitions	Awarding bodies	Validity
June 2007	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Two Consecutive Years) (Note 5)	Zhongshan Administration for Industry & Commerce	Not applicable
23 July 2007	Zheng Ye Packaging (Zhuhai)	ISO 9001: 2000 Standard (Note 6)	China Quality Mark Certification Group	Three years
June 2008	Yong Fa Paper	中國瓦楞芯紙產業十大著名品牌 (China Corrugated Medium Paper Business Top 10 Brand*) (Note 7)	中國市場檢測中心及中國市場研究中心 (China Market Monitoring Center and China Market Research Center*)	Not applicable
July 2008	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Three Consecutive Years) (Note 5)	Zhongshan Administration for Industry & Commerce	Not applicable
30 December 2008	Zheng Ye Packaging (Zhongshan)	ISO 14001: 2004 Standard (Note 2)	China Quality Mark Certification Group	Three years
30 December 2008	Zheng Ye Packaging (Zhongshan)	ISO 9001: 2000 Standard (Note 3)	China Quality Mark Certification Group	Three years
2008	Zheng Ye Packaging (Zhongshan)	Quality Trustworthy Supplier 2008 (Note 1)	Galanz	Not applicable
4 February 2009	Yong Fa Paper	ISO 9001: 2008 Standard (Note 8)	Guangdong Zhongjian Certification Company Limited	Three years
July 2009	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Four Consecutive Years) (Note 5)	Zhongshan Administration for Industry & Commerce	Not applicable
November 2009	Zheng Ye Packaging (Zhongshan)	Strategic Supplier 2009 (Note 1)	Midea	Not applicable
2009	Zheng Ye Packaging (Zhongshan)	Strategic Supplier 2009 (Note 1)	Galanz	Not applicable
10 November 2009	Yong Fa Paper	High Technology Enterprise in Guangdong Province (Note 9)	廣東省科學技術廳 (Guangdong Science and Technology Department*)	Three years
14 December 2009	Zheng Ye Packaging (Zhongshan)	High Technology Enterprise in Guangdong Province (Note 9)	廣東省科學技術廳 (Guangdong Science and Technology Department*)	Three years
February 2010	Zheng Ye Packaging (Zhongshan)	Core Supplier 2010 (Note 1)	Galanz	Three years



## BUSINESS

Date of issue	Recipient	Awards or recognitions	Awarding bodies	Validity
30 March 2010	Zheng Ye Packaging (Zhuhai)	ISO 9001: 2008 Standard (Note 6)	China Quality Mark Certification Group	Three years
31 March 2010	Yong Fa Paper	2003至2009年度優等瓦楞芯紙檢測合格 (Corrugated Medium Paper Achieved Excellent Standard from 2003 to 2009*) (Note 4)	國家輕工業紙張質量監督檢測廣州站 (China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division*)	Not applicable
16 December 2010	Zheng Ye Packaging (Zhongshan)	SA8000: 2008 (Note 10)	SGS Italia S.p.A	Three years

*Notes:*

1. *In recognition of our Group as a reliable supplier as assessed by our major customers.*
2. *Certificate scope: production of paper and plastic packing products (corrugated fiberboard, corrugated box, coloured paper, colour printing box) and relevant management activities. The issue of such certificate represents that the environmental management system of Zheng Ye Packaging (Zhongshan) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*
3. *Certificate scope: design and production of paper and plastic packing products (corrugated fiberboard and corrugated box) and relevant management activities. The issue of such certificate represents that the quality management system of Zheng Ye Packaging (Zhongshan) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*
4. *Please refer to the section headed "Definitions" of this prospectus for the credential of the award and the background and standing of the awarding body.*
5. *Assessed by Zhongshan Administration for Industry & Commerce in accordance with the "Measures for the Examination and Nomination of Contract-Honouring and Trustworthy Enterprises of Guangdong" as approved by the People's Government of the Guangdong Province.*
6. *Certificate scope: production and sales of corrugating medium and relevant management activities. The issue of such certificate represents that the quality management system of Zheng Ye Packaging (Zhuhai) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*
7. *Certified by China Market Monitoring Centre and China Market Research Centre in accordance with "2008 Ranking of Best-Selling Corrugated Paper Products in China," which is published on the website of China Market Monitoring Centre.*
8. *Certificate scope: design and production of paper and plastic packing products (corrugated fiberboard and corrugated box) and relevant management activities. The issue of such certificate represents that the quality management system of Yong Fa Paper has been audited and verified by the issuing organization that it confirms to the requirements specified in the standard.*
9. *Jointly certified by Guangdong Science and Technology Department, Department of Finance of Guangdong Province, Guangdong Provincial Office SAT and Guangdong Provincial Local Taxation Bureau in accordance with the "Method for the Certification, Appraisal and Renaming of Hi-tech Enterprises in Guangdong".*
10. *Certificate scope: manufacture, selling and supply of package products. The issue of such certificate represents that the management system of Zheng Ye Packaging (Zhongshan) has been assessed and certified by the issuing organization that it conforms to the requirements specified in the standard.*



## BUSINESS

### LEGAL AND REGULATORY MATTERS

Save for the inadvertent breaches of certain of the laws and regulation as disclosed in this prospectus that are material in nature and more particularly summarised below, we have been advised by our legal advisers as to PRC law that members of our Group in the PRC have been engaged in their respective businesses within the permitted scopes since their establishment and have obtained all requisite licences, permits, certificates or approvals which are necessary for their business operations and were valid and effective during the Track Record Period and up to the Latest Practicable Date and that our Group has complied with the applicable laws and regulations in the PRC in all material respects and, as advised by our legal advisers as to Hong Kong law, in Hong Kong in all material aspects insofar as our business operations are concerned and have not been penalised by any national or local authorities for the violations of applicable laws and regulations in the PRC and Hong Kong, which are of material importance or could have a material adverse effect on our results of operations:

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Yong Fa Paper	Failed to obtain the relevant planning permits, construction permits for the construction projects and failed to submit the construction projects for planning/ quality check and acceptance procedures for 45 buildings and structures that are owned by us with a total gross floor area of approximately 50,996 sq.m..	These 45 buildings and structures were old buildings acquired by Zhong Tang Shi Ye in 2000 and have been used mainly for storage and as other ancillary facilities since the acquisition. Among these 45 buildings, 26 of them are of no commercial use to our Group and are to be demolished before 31 December 2012; and the remaining 19 buildings can be put into proper use by our Group for after renovation, and in this connection, we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures.	As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish these buildings and could also be liable to a fine of (a) up to a maximum of 10% of the construction costs which amounted to RMB556,200 in respect of the buildings that we have failed to obtain the planning permits for their construction works; (b) up to a maximum of 2% of the contractual price which amounted to RMB96,052 in respect of buildings that we have failed to obtain the commencement permit for their construction; and (c) up to a maximum of 4% of the contractual price which amounted to RMB192,104 in respect of buildings that we have failed to undertake the completion acceptance checks.	We have undertaken to the relevant PRC authorities that we will demolish 26 buildings with a total gross floor area of approximately 17,105 sq.m. by 31 December 2012; while for the remaining 19 buildings we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures. If we fail to obtain the planning permits, commencement permits or the planning and quality check and acceptance from the relevant PRC authorities for any of these 19 buildings, we will demolish such building by 31 December 2012.  The estimated cost to demolish all these 45 buildings is approximately RMB0.5 million.  As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal if we demolish those buildings by 31 December 2012 as we have undertaken to the relevant PRC authorities.	No provision has been made as we received two confirmation letters issued by 中山市黃圃鎮規劃管理所 (Zhongshan City Huangpu Town Planning Management Centre*) and 中山市黃圃鎮建設管理所 (Zhongshan City Huangpu Town Construction Management Centre*) dated 30 November 2010, confirming that no action will be instituted against us and no penalty will be imposed on us for the non-compliance. We have been advised by our legal adviser as to PRC laws that each relevant management centre is competent to issue the confirmation.

## BUSINESS

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Zheng Ye Packaging (Zhongshan)	Failed to obtain planning permit and submit the construction works for quality check and acceptance procedures for a canteen.	Due to the indistinct feature and size of this structure which is a passageway connecting two buildings and obscured by the surroundings, we failed to obtain the planning permit and submit the construction works for quality check and acceptance procedures of this structure due to oversight.	As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish our canteen and could be liable to a fine of (a) up to a maximum of 10% of the construction costs of our canteen which amounted to RMB1,015; (b) a fine up to a maximum of 4% of the contractual price which amounted to RMB406 for the construction of the canteen; and (c) to make compensation if damage is caused to other parties.	We intend to demolish the canteen before June 2011. The structure is a simple one and we intend to demolish the canteen on our own. No additional cost is expected to incur.	No Provision has been made due to immaterial impact to the Company.
Zheng Ye Packaging (Zhuhai)	Failed to undertake the completion acceptance check for a building used as mailroom.	As the mailroom was of small scale and that there had been changes in personnel responsible for the relevant procedures, we failed to designate capable staff in handling compliance work with respect to the local regulations in respect to undertake the completion acceptance check for the mailroom.	As advised by our legal advisers as to PRC law, we may be ordered to take remedial action and be subject to a fine of up to a maximum of 4% of the contractual price for the construction of the canteen which amounted to RMB5,153 and to make compensation if damage is caused to other parties.	Zheng Ye Packaging (Zhuhai) is in the course of completing the completion acceptance check and expects to obtain such certificate by 30 May 2011.  As advised by our legal adviser as to PRC law, there is no legal impediment for us to obtain the certificate for completion acceptance check.	No Provision has been made due to immaterial impact to the Company.
Yong Fa Paper, Zheng Ye Packaging (Zhongshan), Zheng Ye Alliance Packaging, Zheng Ye Packaging (Zhuhai), Zhong Tang Recycling	Failure to provide housing provident funds for certain employees in the PRC prior to August 2010 for Yong Fa Paper, August 2010 for Zheng Ye Packaging (Zhongshan), September 2010 for Zheng Ye Packaging (Zhuhai), August 2010 for Zhong Tang Recycling and October 2010 for Zheng Ye Alliance Packaging.	The local government of Zhongshan and Zhuhai, Guangdong Province, the PRC, did not require to pay housing provident fund during the Track Record Period.	As advised by our legal advisers as to PRC law, a fine of up to RMB50,000 may be imposed on each defaulting enterprise for its failure to carry out the payment of housing provident fund for our staff. Besides, the housing provident fund management centre shall order each defaulting enterprise to pay the housing provident fund in full within a prescribed time limit. Where the payment and deposit has not been made upon the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.	We have effected registration with the relevant local housing provident fund management centers and opened our housing provident fund accounts in designated banks in Zhongshan, Guangdong Province, the PRC, since August 2010 and Zhuhai, Guangdong Province, the PRC, since September 2010 and have been making the requisite contributions since then.  As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	No provision has been made as each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, has confirmed with us in writing that we will not be held liable for our failure to comply with the relevant laws and regulations regarding the housing provident funds in the past. We are advised by our legal adviser as to PRC law that each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, is competent to issue the confirmations.

## BUSINESS

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Zheng Ye International and Shing Yip (Hong Kong)	Their audited accounts were laid at annual general meetings held on dates (the "Approval Dates") which are beyond the time limit (i.e. nine months from the date to which the audited accounts were made up) as required under section 122 of the Companies Ordinance.	The companies and the management did not receive competent and timely professional advice on the on-going compliance requirements under the Companies Ordinance especially the requirement under section 122(1A) of the Companies Ordinance from the then auditors and the company secretarial firm who were responsible for accounting and company secretarial matters.	As each of Zheng Ye International and Shing Yip (Hong Kong) had obtained a court order allowing the extension of time limit for the laying of its accounts under section 122(1A) of the Companies Ordinance to the Approval Dates respectively, none of the directors of Zheng Ye International and Shing Yip (Hong Kong) commits an offence and none of them will be liable to a fine or a summary prosecution under the Companies Ordinance.	Applications were made to the High Court of Hong Kong on 20 January 2011 for extending the time limit for the laying of accounts to the Approval Dates respectively, pursuant to section 122(1B)(b) of the Companies Ordinance. On 27 January 2011, the High Court of Hong Kong granted the orders allowing the extension of time limit for the laying of accounts as required under section 122(1A) of the Companies Ordinance to the Approval Dates respectively.	No provision has been made for the non-compliance as none of Zheng Ye International and Shing Yip (Hong Kong) are liable for any monetary fine under the Companies Ordinance.
Yong Fa Paper, Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging	Delayed in making capital contribution in certain PRC subsidiaries within the required time frame.	Due to fast expansion of our Group's business and staff turnover of newly recruited staff, we inadvertently omitted to keep track of the timeframe for making the required capital contribution to our subsidiaries.	As the relevant shareholders have made full payment of capital contribution up to the Latest Practicable Date and the competent authority has granted approval to applications for changes by concerned companies and the concerned companies have pass every annual joint inspection of foreign-invested enterprises, the failure to make capital contribution timely by relevant shareholders shall not have any material adverse impact on the establishment and maintenance of concerned companies. The concerned companies are duly established and validly existing under PRC laws and regulations.	The relevant shareholders have made full payment of capital contribution up to the Latest Practicable Date.  As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	No provision has been made as the competent authority has granted approval to applications for changes by concerned companies and the concerned companies have pass every annual joint inspection of foreign invested enterprises.

## BUSINESS

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Zheng Ye Packaging (Zhongshan)	Delayed in undertaking the environmental impact evaluation procedures for the construction projects and the checks and acceptance procedures for the corresponding environmental protection facilities required for the construction projects.	Due to our fast expansion, there was some oversight or failure in designating competent staff in handling compliance work with respect to the local regulations in respect to undertake the environmental impact evaluation procedures for the construction projects and the checks and acceptance procedures for the corresponding environmental protection facilities required for the construction projects.	Where the enterprises fail to file an application for approval of the construction project environmental impact report (or statement), the competent regulatory authority shall order the enterprise to make up the formalities within a given time period; where the enterprise fail to make up the formalities on expiry of the given time period and start construction without authorization, it shall be ordered to stop the construction and may be subject to a fine of less than RMB100,000 where the main body of the project formally goes into production or use without submitting the corresponding environmental protection facilities to acceptance and checks procedures, the competent authority shall order the enterprise to stop the production and impose a fine of less than RMB100,000 on the enterprise.	We have now obtained the relevant certificates or approvals, including the waste discharge permit and environmental protection confirmation.  As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	As the competent authorities for the administration of environmental protection have allowed Zheng Ye Packaging (Zhongshan) to complete the environmental impact evaluation procedures for the contractual price and the check and acceptance procedures for the matching environmental protection facilities respectively without imposing any penalties on ZhengYe Packaging (Zhongshan), the risk that the competent authorities taking any actions against ZhengYe Packaging (Zhongshan) for the delay is minimal in practice. No provision is made therefore.
Zhong Tang Shi Ye (and after the merger by absorption, Yong Fa Paper)	Failed to obtain the requisite licence for the supply and sale of electricity to third parties during the Track Record Period and up to 31 December 2010.	At the request of the local government for the general benefits of the community, supplied electricity to third parties located in areas where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by licensed power grid suppliers.  The earnings generated from the sale of electricity to third parties during the Track Record Period were approximately RMB4.6 million, RMB4.5 million, RMB6.2 million and RMB1.7 million respectively.	In the event any enterprise that has not obtained an electric power business licence in accordance with applicable law engages in the provision of electricity business, the electric power regulatory body shall order the enterprise to make correction and confiscate its earnings generated from such business, and may even con-currently impose a fine of not more than five times as much as such earnings. The maximum amount of the fines that may be imposed on our Group as a result of the non-compliance would be approximately RMB85.0 million.	Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties since 1 January 2011.  As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice as the supply was made at the request of the local government.	No provision has been made as the supply was made at the request of the local government for the general benefits of the local community and the relevant competent PRC authorities has confirmed about that the supply of electricity was made at the request of the local government.

## BUSINESS

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Yong Fa Paper	Sales of electricity to third parties during the period from 8 September 2010 and to the end of 2010, was out of the respective business scope of Zhong Tang Shi Ye (before its deregistration) and Yong Fa Paper (upon the merger by absorption).	At the request of the local government for the general benefits of the community, supplied electricity to third parties located in areas where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by the licensed power grid suppliers in these areas.	The administrative department for Industry and Commerce can order the cessation of the sale of electricity and confiscate any income arising thereof. A fine of less than RMB500,000 may be imposed.	Yong Fa has ceased the sales of electricity to others from 1 January 2011.	No provision has been made as the competent authority has confirmed in writing that Yong Fa Paper will not be held liable for the sales of electricity in light of the circumstances.
Yong Fa Paper	Failed to notify the relevant PRC tax bureau in charge of such change in costing determination method in accordance with provision 73 of 中華人民共和國企業所得稅法實施條例 (The Implementation Rules to the Enterprise Income Tax Law of the PRC*).	Due to the outburst of financial crisis in 2008, our management had to change the costing method in order to calculate the cost of sales. Owing to the inadvertent mistake of management, such a change in costing method in the then local management account was not adjusted back to weighted-average costing method in the preparation of the PRC statutory account. This oversight resulted in a decrease in the cost of sales of that subsidiary as per its PRC statutory account and led to an increase in taxable profit of that subsidiary for 2008.	Yong Fa Paper may be required to readjust its costing determination method as previously adopted. However there is no corresponding penalty provisions for such failure as prescribed in 中華人民共和國企業所得稅法實施條例 (The Implementation Rules to the Enterprise Income Tax Law of the PRC*).	Yong Fa has made remedial adjustment in the costing determination method to maintain consistency with the customary practice.	No provision has been made due to immaterial impact to our Group.

## BUSINESS

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Yong Fa Paper	Failed to apply for and obtained the license for the operation of the shipping pier for self-use purpose.	<p>The pier was acquired by Zhong Tang Shi Ye in 2000 at which time Zhong Tang Shi Ye did not notice the need for any requisite licence for the operation of the pier. Zhong Tang Shi Ye has since then been in the process of preparing and collecting the relevant information and documents for the application of the operation licence of the pier but the relevant parties have delayed in providing the information and documents.</p> <p>The pier is not crucial to our Group's operation as no revenue and profit were generated from the pier during the Track Record Period.</p>	<p>The Port Administrative Department may order Yong Fa Paper to cease the operation of its shipping pier and confiscate any income thereof. Where the illegal income is more than RMB100,000, a fine of more than two times and less than five times of such illegal income will be imposed; and where the illegal income is less than RMB100,000, a fine of more than RMB50,000 and less than RMB200,000 will be imposed.</p>	<p>Yong Fa Paper has applied for the license for the operation of shipping pier for self-use and the Administration of Port and Shipping of Zhongshan City has accepted its application. As at the Latest Practicable Date, such application is being processed by the relevant authority and we expect to receive the relevant license by 20 August 2011.</p> <p>As advised by our legal adviser as to the PRC laws, there is no legal impediment for us to obtain the relevant license.</p>	<p>No provision has been made as the competent has given a written confirmation to Yong Fa Paper that it will not hold Yong Fa Paper liable for the non-compliance.</p>

The total expenditure incurred by our Group to rectify the above non-compliance incidents was approximately RMB240,000.

Given the nature and the circumstances giving rise to the above non-compliance incidents, our Directors are of the view that none of these incidents have any material adverse impact on our business and operation and did not involve dishonesty or fraud of our management members. The Sole Sponsor concurs with the Directors' view in this regard.

We had not been involved in any litigation, claim, administrative action or arbitration, which had a material adverse effect on our operations or financial condition during the Track Record Period and as at the Latest Practicable Date, we were not involved in any proceedings, the outcome of which could have any material adverse effect on our business.

### MEASURES TO PREVENT FUTURE NON-COMPLIANCE

In order to continuously improve our corporate governance and to prevent future non-compliance, our Group intends to adopt or have adopted the following measures:

- (i) our in-house qualified PRC lawyer, who has over 10 years of experience and joined our Group in February 2011, is expected to be retained on an on-going basis to oversee and monitor the PRC legal and regulatory compliance matters in relation to our Group's operation and to report to our Board of any potential or actual non-compliance. We will also retain an external PRC legal adviser prior to the Listing Date for an initial term of one year who will work closely with our in-house PRC lawyer on PRC legal and regulatory compliance matters in relation to our Group's operation;

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## BUSINESS

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- (ii) our external PRC legal advisers will provide seminar and prepare guidelines to our Directors and other members of our senior management as is necessary on the laws, rules and regulations which are relevant to our Group's operation. Regular updates will also be provided by the PRC legal advisers to our Company, whether external or in-house, to our Directors and other members of the senior management of our Group to keep them abreast of the changes and development in such laws, rules and regulations;
- (iii) established a risk management & internal control committee (the "**Committee**") in January 2011 dedicated to assist the Board to identify, assess and manage the risks associated with the operation of our Group, among other things, and to ensure the due compliance of applicable rules and regulations, as well as our internal control measures. Our Group has designated Mr. Lau Wang Lap, our company secretary and financial controller, who is a qualified Certified Public Accountant, and has experience in managing financial reporting risk and compliance issues of a listed company, to oversee the Committee which consists of four other senior members, with an average 18 years of industry experience, from the packaging division and the paper business. The Committee shall promptly report to the Company's audit committee for any risk or suspected non-compliance identified, engage external professional advisers, such as lawyers and accountants, and prepare recommendations for the Board consideration. The Committee will also monitor the implementation of the internal control measures;
- (iv) our company secretary will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will liaise with our in-house PRC lawyer and our other professional advisers to look into the matter and to provide necessary advices, guidelines or recommendation, as the case may be, to relevant members of our Group and/or our Board;
- (v) our audit committee comprising three independent non-executive Directors, will review our internal controls on an annual basis to ensure, among other things, that our Group fully complies with all applicable laws, rules and regulations relevant to our operation, recommendation will be made to our Board for the improvement of our internal control procedures and system as is necessary and report will be made to our Board immediately if there is any potential or actual non-compliance;
- (vi) our Company has appointed three independent non-executive Directors on 4 March 2011, among them, Mr. Chung Kwok Mo John has over 18 years of experience in auditing, financial management and corporate finance and Mr. Wu Youjun has experience in advising PRC companies in regulatory aspects. Their depth of experiences could assist us to procure our compliance with laws and regulations on a continuous basis;
- (vii) our Company will appoint CMBI as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with Rule 3A.19 of the Listing Rules;
- (viii) improving our existing internal control framework by adopting a new set of internal control manual and policies in February 2011, including the corporate governance manual, internal control policy and finance management policy, which cover corporate governance, operations, management, legal matters, finance and audit, subject to periodic review and update, for the need of our Group. Such internal control manual and policies



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## BUSINESS

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have been reviewed by our internal control adviser, Baker Tilly Hong Kong Business Services Limited (“Baker Tilly Hong Kong”), which is of the view that we have established procedures, systems and controls which are adequate having regard to the obligations of our Company and the Directors to comply with the Listing Rules and other relevant legal and regulatory requirements and which are sufficient to enable the Directors to make a proper assessment of the financial position and prospects of our Group. Moreover, Baker Tilly Hong Kong is satisfied with the results of its internal control review over the procedures, systems and controls implemented by our Company;

- (ix) conducting regular departmental review upon Listing in which representatives from each member of our Group shall meet at our Group’s headquarter in Zhongshan, Guangdong Province, the PRC and report to the Committee on its local compliance once every quarter; and
- (x) on-going review of our human resources policies to ensure sufficient manpower is in place to avoid overlooking any legal requirements in the future.

The proposed expenditures to deal with compliance issues in the future is expected to be approximately HK\$550,000 per annum.

Our Company will provide updates on the steps taken to remedy the outstanding non-compliances noted in this prospectus and summarised in the paragraph headed “Legal and regulatory matters” of this section and the progress of resolving the outstanding non-compliance issues after Listing in our interim and annual reports for so long as any of the non-compliances remain outstanding.

In the light of the foregoing, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures are adequate and effective.