You should read the following discussion and analysis of our Group's business, results of operations and financial conditions in conjunction with our combined financial information as at and for each of the three financial years ended 31 December 2009 and the nine months ended 30 September 2010 and the accompanying notes thereto, the text of which is set forth in the accountants' report in Appendix I to this prospectus. The following discussion and analysis contains certain forward-looking statements and information that involve substantial risks and uncertainties. Our future results could differ materially from those stated in any forward-looking statements and information contained in this section and this prospectus. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk factors" in this prospectus.

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.

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 major household appliances (commonly known as "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 for the China Packaging Federation, we were the largest supplier of paper-based packaging products to 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 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 environment.

BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in Bermuda on 18 August 2010, as an exempted company under the Companies Act. Our Group resulting from the Reorganisation is regarded as a continuing entity. According to the financial information of our Group, which has been prepared by applying the principles of merger accounting as if the group structure had been in existence throughout the Track Record Periods, or since their respective dates of incorporation/establishment where this is a shorter period.

MAJOR FACTORS AFFECTING OUR GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our Group recorded relatively stable financial results during the Track Record Period albeit suffering from the impact of the global financial crisis outburst in late 2008. Our Directors believe that by implementing our business strategies as detailed under the section headed "Business — Business strategies" in this prospectus, our Group 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. However, potential investors should be aware of the following factors which we think may affect our results of operations, financial conditions and the period-to-period/year-to-year comparability of our results of operations.

Change of overall global economic conditions, particularly for the PRC, which affects consumer sentiment on the products of our major customers

Our revenue is mainly derived from the sales of our paper-based packaging products and corrugated medium paper. During the Track Record Period, we sold our paper-based packaging products to renowned consumer product manufacturers in various industries, targeting in particular those major manufacturers of household air-conditioners and other household appliances, such as Gree, Midea and Galanz. During the Track Record Period, the revenue derived from the sales of paper-based packaging products was approximately RMB298.0 million, RMB371.6 million, RMB388.5 million and RMB422.6 million, respectively, which accounted for approximately 43.3%, 44.4%, 52.3% and 55.7% of the total revenue for each financial year/period during the Track Record Period, respectively.

Our revenue derived from the sale of corrugated medium paper was approximately RMB389.6 million, RMB464.8 million, RMB354.9 million and RMB335.5 million, respectively, which accounted for approximately 56.7%, 55.6%, 47.7% and 44.3% of the total revenues for the corresponding financial year/period, respectively. The waste paper we collect and purchase will be further processed into different categories of corrugated medium paper. A certain portion of our corrugated medium paper is then passed to the next stage of our production chain and used to produce paper-based packaging products, or is then sold to other packaging materials manufacturers in the PRC.

During the Track Record Period, we sold our paper-based packaging products primarily to manufacturers of household air-conditioners and other household appliances, such as Gree, Midea and Galanz and manufacturers of food condiment and other consumer products in the PRC. Additionally, we sold our corrugated medium paper to other paper-based packaging products materials manufacturers in the PRC. To the best knowledge of our Directors, the overall economic conditions, particularly in the PRC, as reflected by its consumer spending, personal disposable income and household income, will directly affect the market demand for consumer products and such market demand will in turn affect the sales for our paper-based packaging products and corrugated medium paper products.

According to the National Bureau of Statistics of China, per capita annual disposable income of the urban households of China has increased by approximately 8.8% in 2009 while the per capita annual disposable income of rural households has also increased by approximately 8.2% in 2009. Due to the strong growth in personal disposable income and the rising living standards in the PRC in recent years, the demand for consumer products is expected to continue to rise in the future and will eventually fuel the growth in estimated household expenditures on consumer products.

The global financial markets previously experienced significant downturn and temporarily weakened the market demand of household appliances and in turn our products. Due to the global financial crisis outburst in the fourth quarter of 2008, our business was adversely affected and our revenue decreased from approximately RMB836.4 million for the year ended 31 December 2008 to approximately RMB743.4 million for the year ended 31 December 2009. Our average selling price of both paper-based packaging products and corrugated medium paper were affected by the weakened market demand after the outburst of global financial crisis. The average selling price per sq.m. of our paper-based packaging products dropped from approximately RMB3.4 in 2008 to approximately RMB3.0 in 2009, while the average selling price per tonne of our corrugated medium paper dropped from approximately RMB2,626 in 2008 to approximately RMB1,939 in 2009. However, our sales volume of both paper-based packaging products and corrugated medium paper was not seriously affected since our Group focused on promoting our products to our customers. Sales volume of paper-based packaging products and corrugated medium paper recorded an increase of approximately 15.9% and 3.4% from 2008 to 2009, respectively.

As the then prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Since the average selling price of our corrugated medium paper after the outburst of the crisis in late 2008 decreased at a greater rate than that of our average purchase cost of waste paper, there was a decrease in gross profit margin from approximately 17.1% for the year ended 31 December 2007 to approximately 7.4% for the year ended 31 December 2008.

With the global financial markets gradually improved in 2009, our Group's gross profit margin for corrugated medium paper improved to approximately 15.6% for the year ended 31 December 2009 and further to 17.7% for the nine months ended 30 September 2010. Should there be deterioration of the global economy in the future which impacts our customers' business cycles, our business would be adversely affected.

Our Directors believe that the improvement of the global economy after the outburst of financial crisis in late 2008 coupled with the continuous economic development in the PRC provide an enormous growth potential for the market for consumer products as well as that for our Group's corrugated medium paper and paper-based packaging products accordingly.

The latest financial period reported by the reporting accountants required under the Companies Ordinance and the Listing Rules

An application has been made to the SFC for a certificate of exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Hong Kong Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31 December 2010 in this prospectus and a certificate of exemption has been granted by the SFC in this regard. Further, an application has also been made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules in relation to the inclusion of the accountants report for the full year ended 31 December 2010 in this prospectus, and such waiver has been granted by the Stock

Exchange. For details, please see the section headed "Waivers from strict compliance with the Listing Rules and exemption from strict compliance with the Companies Ordinance" in this prospectus.

The development of the household appliance industry in the PRC

In recent years, the PRC government has implemented short term incentive policies aimed at accelerating the growth and improving the quality of living standards of residents in the rural areas, such as the Rural Appliance Rebate Program and the Change of the Old for New Program. We mainly sell our paper-based packaging products to the manufacturers of household appliances in the PRC. During the Track Record Period, approximately 43.3%, 44.4%, 52.3% and 55.7% of our total revenue were generated from the sales of our paper-based packaging products. While the Rural Appliance Rebate Program and the Change of the Old for New Program are short term incentive policies of the PRC government, we believe both programs will stimulate the demand for the household appliance of our customers and have a positive impact on the sales of our paper-based packaging products accordingly. The expiration of the Rural Appliance Rebate Program and the Change of the Old for New Program or any changes to such policies may negatively affect our revenue and results of operations.

Raw materials costs

Waste paper and raw paper are the principal raw materials in the course of our production.

Waste paper is an essential raw material in our production of corrugated medium paper which was either sold to our customers or adopted in the production of paper-based packaging products. The cost of waste paper consumed accounted for approximately 60.7%, 58.0%, 53.0% and 49.4%, respectively, of our total raw materials costs during the Track Record Period. We historically relied on an established network consisting of a wide range of local waste paper suppliers in Zhongshan, Guangdong Province, the PRC, to ensure a stable supply of waste paper for our corrugated medium paper production. In the meantime, we also advocate extending our procurement channels from international waste paper suppliers which supply us with high quality waste paper feedstock.

In addition, we procure raw paper from our suppliers which include the leading paper products manufacturers in the PRC for our production of paper-based packaging products. The cost of raw paper consumed accounted for approximately 30.4%, 32.4%, 34.4% and 39.1%, respectively of our total raw material costs during the Track Record Period.

Fluctuations in the prices of the raw materials have been, and are expected to continue to be, caused by overall economic growth and the market demand for paper products. Although our Group cannot control the market prices of waste paper and raw paper, our Group will minimise the impact of such fluctuations through: (i) passing on part of the increases in raw materials' prices to our customers; (ii) sourcing waste paper at a lower cost through our established network of local waste paper suppliers; (iii) improving production efficiency; and (iv) utilising economies of scale. Nonetheless, our Group's operating margins may be adversely affected if our Group continues to experience rising costs but is unable to mitigate the effects through the means specified above in future periods.

The sensitivity analysis below details our Group's sensitivity to a 5% increase in the purchase costs of waste paper and raw paper:

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in profit before tax for the year or period caused by a 5% increase in the purchase costs of:				
Waste paper	13,765	15,987	11,576	11,610
Raw paper	6,890	8,928	7,504	9,192

The expansion of our production capacity in recent years

Our production capacity expanded significantly during the Track Record Period through constructing of new production lines as well as re-engineering and modifying our existing production facilities with a view to enabling our Group to capture more sales from the anticipated growing demand in the market. For details of the production capacity, please refer to the section headed "Business — Production — Production facilities" in this prospectus.

We believe that the increase in our actual production capacity during the Track Record Period have strengthened our market position and enhanced our competitiveness in the market. We plan to keep expanding our production capacity and to set up two large scale production bases focusing on the production of paper-based packaging products in Hefei, Anhui Province, the PRC, and Zhengzhou, Henan Province, the PRC, which is expected to become a growing hub for the PRC household appliance industry. Our Directors believe that such expansion will further strengthen our business of paper-based packaging products, which in turn will increase our sales and gross profit margin. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for the details of our future production capacity expansion plan.

Product mix and pricing of our products

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, we also manufacture high-strength corrugated medium paper, which could satisfy our Group's demand for corrugated medium paper for producing paper-based packaging products. The diversification of our product portfolio has strengthened our revenue base and affected our profit margin as a result of the change in revenue derived in proportion from each class of products. Our continuing ability to optimise our product mix to meet different customers' needs and preferences helps to drive our sales. Currently, our product mix mainly includes manufacturing of paper-based packaging products including corrugated cartons, honeycomb paper-based products and other paper-based packaging products and corrugated medium paper. During the Track Record Period, our paper-based packaging products maintained a relatively stable gross profit margin, ranging from approximately 18.2% to approximately 22.4%. The gross profit margin of manufacturing corrugated medium paper ranged from approximately 7.4% to approximately 17.7%. During the Track Record Period, our Group expanded the variety of our paper-based packaging products by expanding, modifying and upgrading our production facilities to enhance our production capacity and efficiency. In 2010, we set up a new production plant of honeycomb paper-based products in Zhongshan, Guangdong Province, the PRC, which our Group started its commercial operation in December 2010.

With the rising portion of revenue generated from our paper-based packaging products during the Track Record Period, we recorded an increasingly stable gross profit margin overall. This is mainly attributable to higher stability in pricing and cost structure of the paper-based packaging products segment. Regarding the pricing, by leveraging the well-established long term business relationships with our major customers of paper-based packaging products, such as Gree, Midea and Galanz, we were able to maintain the gross profit margin of our paper-based packaging products by reasonably increasing the respective selling prices after negotiation and agreeing with respective customers. Regarding the cost structure, since the volatility risk of the coal cost in utilities, in relation to the coal power generation facilities supplying electricity and steam, is only limited to the corrugated medium paper segment, such risk does not bring any adverse impact to the gross profit margin of our paper-based packaging products.

On the other hand, with the rising portion of the revenue generated from our paper-based packaging products, the longer credit period we offered to those customers will likely to have an adverse impact on our working capital position.

Market competition

Our Group has positioned itself as 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 also faces competition from other packaging suppliers as a number of foreign companies have established paper manufacturing and paper-based packaging enterprises in the PRC, and we expect competition to further intensify as new suppliers enter the market, which in turn affects our sales and results of operations. For further details, please refer to the section headed "Risk factor — Risks relating to the industry" in this prospectus.

Level of income tax and preferential tax treatment

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 33% on the estimated assessable profits of our Group's companies during the year ended 31 December 2007.

On 16 March 2007, the PRC promulgated the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Rules to the New Tax Law (中華人民共和國企業所得稅法實施條例) (the "**Implementation Rules**"). The New Tax Law and Implementation Rules changed the tax rate from 33% to 25% for the PRC subsidiary from 1 January 2008. The following preferential tax rates should still be effective after adoption of the unified tax rate of 25%.

According to Article Eight of the Invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the "**FIE Tax Law**") which became effective from 1 July 1991 and expired since 1 January 2008, Foreign Investment and Foreign Enterprises for production were approved to enjoy 2-year income tax exemptions commencing from their first profit-making year of operations, and thereafter to enjoy a 50% relief for the following three years ("Preferential Tax 1"). This policy was still in effect when the income tax rate unified in 1 January 2008 if an enterprise was in the process of this transition stage at that point.

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

According to Article Seven of the FIE Tax Law, the income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24% ("**Preferential Tax 3**").

According to Preferential Tax 3, Zheng Ye Packaging (Zhongshan) was levied at the reduced rate of 24%. Further, according to document (Zhongshanguoshuihan [2004] 326) (中山國稅函[2004]第236號) issued by Zhongshan State Administration of Taxation, Zheng Ye Packaging (Zhongshan) is eligible to Preferential Tax 1. As 2004 is the first profit making year for Zheng Ye Packaging (Zhongshan), it enjoyed a 50% relief of income tax rate from 2006 to 2008. As mentioned above, from 1 January 2008, the general statutory enterprise income tax rate is 25%. Therefore its applicable income tax rate was 12% and 12.5% from 2006 to 2007 and 2008 respectively. Zheng Ye Packaging (Zhongshan) obtained the Certificate of High-Technology in 2009, and the applicable income tax rate was 15% in 2009, 2010 and 2011 based on Preferential Tax 2.

According to Preferential Tax 3, Yong Fa Paper was levied at the reduced rate of 24%. Further, according to document (Zhongshanguoshuihan [2005] 358) (中山國稅函[2005]第358號) issued by Zhongshan State Administration of Taxation, Yong Fa Paper is eligible to Preferential Tax 1. As 2004 is the first profit making year for Yong Fa Paper, it enjoyed a 50% relief from the PRC enterprise income tax from 2006 to 2008. As mentioned above, from 1 January 2008, the general statutory enterprise income tax rate is 25%. Therefore its applicable income tax rate was 12% and 12.5% from 2006 to 2007 and 2008 respectively. Yong Fa Paper obtained the Certificate of High-Technology in 2009 and the applicable income tax rate was 15% in 2009, 2010 and 2011 based on Preferential Tax 2.

According to document (Zhongjijianzi [2007] 132) (中計監字[2007]第132號) issued by Zhongshan State Administration of Taxation, and Preferential Tax 1, Zhong Tang Shi Ye was exempted from the PRC enterprise income tax in 2007 and 2008 and thereafter entitled to a 50% relief to the income tax rate of 12.5% from 1 January 2009 to 28 October 2010 (date of de-registration).

According to document (Zhongshanguoshuipuzi [2009] 001) (中山國稅普字[2009]第001號) issued by Huangpu District Office of Zhongshan Municipal Office, State Administration of Taxation, and Preferential Tax 1, Zheng Ye Alliance Packaging was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010.

According to document (Zhudouguoshuihan [2008] 51) (珠斗國稅函[2008]第51號) issued by Doumen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Preferential Tax 1, Zheng Ye Packaging (Zhuhai) was exempted from the PRC enterprise income tax in 2008 and 2009 and thereafter entitled to a 50% relief to the income tax rate of 12.5% in 2010.

If the PRC authorities further amend or promulgate new laws or regulations which prescribe a higher standard EIT rate or introduce any change to the tax preferential treatment which our Subsidiaries in the PRC currently enjoy, our profit after taxation and financial position may be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our operating results and financial conditions are based on our audited financial information, which has been prepared in accordance with HKFRS issued by HKICPA. Our operating results and financial conditions are sensitive to the accounting methods, assumptions and estimates that underlie the preparation of the financial information. The assumptions and estimates are based on our industry experience and on various other factors, including our Directors' expectations of future events that they believe to be reasonable. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as facts, circumstances and conditions change or as a result of different assumptions.

When reviewing our combined financial information, our management considers the selection of critical accounting policies and the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited financial information. Our significant accounting policies are summarised in note 1 of the accountants' report on our Group in Appendix I to this prospectus. We believe the following critical accounting policies and practices involve significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities within the next financial year.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and the title has passed to our customers.

Management fee income and sales of electricity and steam are recognised when the services are rendered.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Inventories

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

We assess periodically if the inventories have suffered any impairment. Our management reviews the inventory levels, sales of inventory in the period and inventory composition at each balance sheet date so as to determine whether allowance for obsolete and slow-moving inventories is required to be made. The management estimates the net realizable value for such inventories based on the past sales performance, any planned promotional activities and general consumer trends.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In accessing whether allowance for bad and doubtful debts is required, we take into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, we will discuss with the relevant customers and report on the recoverability; specific allowance is only made for trade receivables that are unlikely to be collected.

Financial liabilities and equity

Financial liabilities of and equity instruments issued by any of our Group's members are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, amounts due to our Directors and related parties, and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Borrowing costs

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

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

SUMMARY OF FINANCIAL INFORMATION

Following is a summary of the results of our Group for the Track Record Period which has been extracted from the accountants' report of our Company set out in Appendix I to this prospectus.

Combined Statements of Comprehensive Income

	Year ended 31 December 2007	Year ended 31 December 2008	Year ended 31 December 2009	Nine months ended 30 September 2009	Nine months ended 30 September 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
REVENUE	687,545	836,409	743,351	531,566	758,161
Cost of sales	(566,486)	(733,530)	(604,273)	(428,314)	(619,059)
Gross profit	121,059	102,879	139,078	103,252	139,102
Other income	11,056	5,610	6,528	4,834	4,803
Other gains and losses	(179)	2,208	(894)	(16)	12,835
Distribution and selling expenses	(17,362)	(20,130)	(20,504)	(14,666)	(17,109)
Administrative and other expenses	(36,538)	(42,424)	(38,877)	(27,503)	(42,353)
Finance costs	(10,520)	(17,860)	(13,062)	(9,715)	(11,940)
PROFIT BEFORE TAX	67,516	30,283	72,269	56,186	85,338
Income tax expense	(7,181)	(5,817)	(10,005)	(7,546)	(13,883)
Profit and total comprehensive income for the year/period	60,335	24,466	62,264	48,640	71,455

DESCRIPTION OF CERTAIN COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

The following paragraphs set out a brief discussion on the revenue, cost of sales, gross profit and gross profit margin breakdown of our products and other components of statement of comprehensive income during the Track Record Period.

Revenue

During the Track Record Period, our Group's revenue was comprised of sales of paper-based packaging products and corrugated medium paper and is summarized below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Revenue by product										
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	389,556	56.7%	464,838	55.6%	354,854	47.7%	256,135	48.2%	335,526	44.3%
Total	**687,545**	**100.0%**	**836,409**	**100.0%**	**743,351**	**100.0%**	**531,566**	**100.0%**	**758,161**	**100.0%**

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009 (unaudited)	2010
Quantity sold by product					
Paper-based packaging products ('000 sq.m.)	90,801	109,895	127,406	89,765	119,750
Corrugated medium paper ('000 tonne)	165	177	183	134	123
Average selling price (RMB)					
Paper-based packaging products (per sq.m.)	3.3	3.4	3.0	3.1	3.5
Corrugated medium paper (per tonne)	2,361	2,626	1,939	1,911	2,728

Paper-based packaging products

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 paper-based packaging products sales increased throughout the Track Record Period primarily due to an increase in sales volume. The average selling price per sq.m. of our paper-based packaging products was stable and remained at a range between approximately RMB3.0 per sq.m. to approximately RMB3.5 per sq.m. during the Track Record Period whereas sales from our paper-based packaging products increased throughout the Track Record Period, due to our growing emphasis on promoting our paper-based packaging products, increasing demand for such products due to favorable market conditions, as well as our effort in expanding our customer base from focusing on the household air-conditioning industry in the past to a wider range of industries, including other household appliance and food condiment industries during the Track Record Period. We have adopted a cost-plus pricing model whereby the selling price of our paper-based packaging products was determined by a mark-up over cost of major raw materials with reference to the prevailing market prices of such raw materials at the time of entering into the contracts with our customers. Such mark-up is determined with reference to, among other things, our business relationship with the respective customers, delivery schedule, transportation cost, additional printing requirements, the technical specifications etc.

Since there is a continuous improvement of the global economy after the outburst of global financial crisis in late 2008, our sales from those customers who are household air-conditioner manufacturers increased for the nine months ended 30 September 2010. During the three months ended 31 December 2010, our Group's unaudited revenue of our paper-based packaging products was approximately RMB163.6 million while the revenue for the nine months ended 30 September 2010 was approximately RMB422.6 million. Our Group's average selling price of our paper-based packaging products during the three months ended 31 December 2010 remained at approximately RMB3.6 per sq.m., compared with approximately RMB3.5 per sq.m. for the nine months ended 30 September 2010. Whereas, the average sales quantity of paper-based packaging products per quarter increased from 39,917 sq.m. for the nine months ended 30 September 2010 to 44,982 sq.m. for the three months ended 31 December 2010. As a result, our average revenue for paper-based packaging products per quarter increased from approximately RMB140.9 million for the nine months ended 30 September 2010 to approximately RMB163.6 million (unaudited) for the three months ended 31 December 2010.

Corrugated medium paper

The revenue generated from the sales of 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 nine months ended 30 September 2010, respectively. During the Track Record Period, corrugated medium paper products were either sold to third parties customers directly or used in the production of our paper-based packaging products. The selling prices of the corrugated medium paper are set by our management based on the cost-plus pricing strategy, with reference to the prevailing market price of the products and our cost of sales, in particular the price of waste paper. The selling prices will then be regularly reviewed by our sales teams and our management team. Meanwhile, since the pricing of our corrugated medium paper was referenced to the prevailing market price of waste paper, the average selling price per tonne of our corrugated medium paper was higher in year 2007 and 2008, with approximately RMB2,361 and RMB2,626, as a result of the increasing price trend of waste paper. The decrease in the average selling price per tonne in year 2009 was mainly due to the impact from the financial crisis in the last quarter in 2008. The average selling price per tonne of our corrugated medium paper in 2009 was approximately RMB1,939, and increase to approximately RMB2,728 for the nine months ended 30 September 2010.

During the three months ended 31 December 2010, our Group's unaudited revenue of our corrugated medium paper was approximately RMB152.1 million while the revenue for the nine months ended 30 September 2010 was approximately RMB335.5 million. Our Group recorded a slight increase in the average selling price of our corrugated medium paper from approximately RMB2,728 for the nine months ended 30 September 2010 to approximately RMB2,896 per tonne, which was mainly driven by an increase in prevailing market price during the three months ended 31 December 2010. Our average revenue for corrugated medium paper per quarter increased from approximately RMB111.8 million for the nine months ended 30 September 2010 to approximately RMB152.1 million (unaudited) for the three months ended 31 December 2010.

Cost of sales

During the Track Record Period, cost of sales represents the direct costs of production, which includes primarily raw material costs, manufacturing overheads and direct staff costs of our Group. The cost of sales is summarised below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Cost of Sales										
Raw Materials	453,459	80.1%	551,488	75.1%	436,881	72.3%	308,364	72.0%	470,175	76.0%
Manufacturing overheads										
— Utilities	47,155	8.3%	99,602	13.6%	85,362	14.1%	59,170	13.8%	77,071	12.5%
— Depreciation	6,541	1.2%	12,338	1.7%	14,262	2.4%	10,230	2.4%	11,449	1.8%
— Rental expenses	12,724	2.2%	11,577	1.6%	10,319	1.7%	7,701	1.8%	5,168	0.8%
— Repair and maintenance	12,530	2.2%	16,331	2.2%	11,911	2.0%	8,768	2.0%	9,699	1.6%
Subtotal	78,950	13.9%	139,848	19.1%	121,854	20.2%	85,869	20.0%	103,387	16.7%
Direct Staff Cost	34,077	6.0%	42,194	5.8%	45,538	7.5%	34,081	8.0%	45,497	7.3%
Total	**566,486**	**100.0%**	**733,530**	**100.0%**	**604,273**	**100.0%**	**428,314**	**100.0%**	**619,059**	**100.0%**

Raw materials

Raw material costs mainly represented procuring costs of waste paper and raw paper. Waste paper is mainly used for manufacturing our corrugated medium paper and raw paper is mainly used for manufacturing our paper-based packaging products. During the Track Record Period, procuring costs of raw materials accounted for over 70% of our cost of sales. Amongst the cost of sales, the cost of waste paper was approximately 60.7%, 58.0%, 53.0% and 49.4% of the total raw material costs, while the cost of raw paper was approximately 30.4%, 32.4%, 34.4% and 39.1% of the total raw material costs. The decreasing trend of our cost of waste paper and the increasing trend of our cost of raw paper as a percentage of our total cost of sales during the Track Record Period, was primarily due to a change of product mix that focuses more on paper-based packaging products which have relatively higher profit margins. In order to ensure a stable supply of waste paper, our Group has established a network with a variety of local waste paper suppliers in Zhongshan, Guangdong Province, the PRC and also advocates extending our procurement channels from international waste paper suppliers which supply us with high quality waste paper feedstock. In addition, our Group procures raw paper from our raw paper suppliers which include the leading paper products manufacturers in the PRC for production of paper-based packaging products.

Manufacturing overheads

Manufacturing overheads mainly represented utilities costs, depreciation expenses, rental expenses and repair and maintenance costs. Amongst the manufacturing overheads, utilities costs accounted for approximately 8.3%, 13.6%, 14.1% and 12.5%, respectively, of our cost of sales during the Track Record Period. Our Group's utilities costs, primarily comprised coal purchase cost, accounted for over 80% of our utilities costs during the Track Record Period. Other utilities costs mainly consist of heavy fuel oil cost, third party electricity cost and water. Our Group uses coal as fuel for our coal power generation facilities that supply electricity and steam used in the manufacturing of corrugated medium paper. Thus, fluctuation of purchase cost of coal would affect the cost of manufacturing of corrugated medium paper. To the best knowledge of our Directors, generating power from our own coal power generation facilities are more cost effective than relying on the supply of electricity and steam from third parties.

Also, depreciation expenses among manufacturing overheads mainly represented the wear off cost of fixed assets and machineries used for our production purposes. Depreciation expenses accounted for approximately 1.2%, 1.7%, 2.4% and 1.8% of our total cost of sales during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

Direct staff costs

Direct staff costs mainly represented salaries paid to our production staff. Staff costs accounted for approximately 6.0%, 5.8%, 7.5% and 7.3% of our total cost of sales during the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

Gross profit and gross profit margin

During the Track Record Period, gross profit and gross profit margin of our Group are summarised below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Gross Profit										
Paper-based packaging products	54,381	44.9%	68,483	66.6%	83,592	60.1%	61,629	59.7%	79,547	57.2%
Corrugated medium paper	66,678	55.1%	34,396	33.4%	55,486	39.9%	41,623	40.3%	59,555	42.8%
Total	**121,059**	**100.0%**	**102,879**	**100.0%**	**139,078**	**100.0%**	**103,252**	**100.0%**	**139,102**	**100.0%**

	Year ended 31 December			Nine months ended 30 September	
	2007	2008	2009	2009 (unaudited)	2010
Gross Profit Margin					
Paper-based packaging products	18.2%	18.4%	21.5%	22.4%	18.8%
Corrugated medium paper	17.1%	7.4%	15.6%	16.3%	17.7%
Overall	**17.6%**	**12.3%**	**18.7%**	**19.4%**	**18.3%**

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 remained stable at approximately 18.2% and 18.4% for the years 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 was mainly attributable to the difference in their pricing policies and the cost structure of these two products.

Corrugated medium paper

The gross profit margin of our group's 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. Currently, pricing of our corrugated medium paper is principally determined with reference to the prevailing market price of the products, the price of our raw materials, and other overheads such as transportation costs. The decrease in gross profit margin of our corrugated medium paper for the year 2008 was mainly due to the following reasons.

Firstly, there was a decrease in average selling price of our corrugated medium paper in late 2008. As the prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Secondly, there was an increase in our average purchase cost of waste paper. During the first three quarters of 2008, our purchase cost of waste paper was significantly higher than that of in the last quarter of 2008. Since most of our purchase orders for waste paper were placed during the first three quarters of 2008, at a relatively higher purchase cost, the overall purchase cost of waste paper for the year 2008 increased significantly as compared to that of in the year 2007. Lastly, since there was an increase in purchase cost of coal during the year 2008, our utilities cost increased as compared to that in 2007. For details, please refer to the sub-section headed "Year-to-year analysis of our trading record — Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007 — Gross profit and gross profit margin" below.

The gross profit margin for corrugated medium paper decreased from approximately 17.7% for the nine months ended 30 September 2010 to an estimate of approximately 14.9% in the last quarter of 2010. It was mainly due to the average purchase cost of waste paper increased at a greater rate than that of the average selling price of corrugated medium paper. During the year 2010, the average purchase cost of waste paper increased from approximately RMB1,193 per tonne in first three quarters of the year 2010 to approximately RMB1,483 per tonne in last quarter of year 2010. Meanwhile, the average selling price from approximately RMB2,728 per tonne increased to approximately RMB2,896 per tonne, for the nine months ended 30 September 2010 and for the three months ended 31 December 2010, respectively, which the selling prices of waste paper and corrugated medium paper were mainly driven by the then prevailing market price.

Paper-based packaging products

Our Group's gross profit margin for paper-based packaging products remained stable for the year ended 31 December 2007 and 2008, at approximately 18.2% and 18.4% respectively. Then, our Group's gross profit margin increased to approximately 21.5% and decreased to 18.8 % for the year ended 31 December 2009 and nine months ended 30 September 2010, respectively.

Our Group's gross profit margin for paper-based packaging products increased from approximately 18.4% for the year ended 31 December 2008 to approximately 21.5% for the year ended 31 December 2009. It was mainly due to the decrease in the average purchase cost of raw paper, including corrugated medium paper, from approximately RMB3,687 per tonne in 2008 to approximately RMB3,025 per tonne in 2009. Such decrease was, in turn, mainly due to the global financial crisis outburst in late 2008 which led to a significant drop in the purchase cost of raw paper for the year 2009.

By taking advantage of well-established long term business relationships with our major customers of paper-based packaging products, such as Gree, Midea and Galanz, in general we were able to pass the risk of increase in raw material costs to our customers of paper-based packaging products and maintain the gross profit margin of our paper-based packaging products by adjusting the respective selling prices after negotiation and agreement with respective customers. Also, the fluctuation of utilities cost may not affect the gross profit margin of our paper-based packaging products since our Group only uses coal as fuel for our coal power generation facilities to supply electricity and steam solely for the manufacturing of corrugated medium paper. The average selling price of our paper-based packaging products decreased from approximately RMB3.4 per sq.m. for the year ended 31 December 2008 to approximately RMB3.0 per sq.m. for the year ended 31 December 2009. Since the decreased in average selling price per sq.m. was at a smaller extent than the decrease in purchase cost of raw paper, the gross profit margin of our paper-based packaging products increased.

The gross margin of our paper-based packaging products was then decreased to approximately 18.8% for nine months ended 30 September 2010. It was mainly due to the increase in average purchase cost of raw paper from approximately RMB3,025 per tonne in 2009 to RMB3,808 per tonne for the nine months ended 30 September 2010. Though our Group has adjusted the selling price of our paper-based packaging products, which its average selling price per sq.m. increased to approximately RMB3.5, the increase in average selling price of our paper-based packaging products per sq.m. could not catch up the increase in purchase cost of raw paper, the gross profit margin of our paper-based packaging products decreased.

Meanwhile, the estimated gross profit margin of our paper-based packaging products dropped to approximately 15.7% for the three months ended 31 December 2010 as compared with approximately 18.8% of the nine months ended 30 September 2010, which was mainly due to the average purchase cost of raw paper increased at a rapid rate to the highest level of 2010, during the three months ended 31 December 2010 whereas the average selling price of our paper-based packaging products only increased at a smaller extent in the same period.

As the prevailing market price of waste paper and raw paper is largely determined by market supply and demand, which is affected by the global economic conditions, it is neither a seasonal pattern nor caused by any one-off factors. Based on the experience of our Directors and our management, it is common to experience fluctuations in the purchase cost of waste paper and raw paper during the course of business.

Other income

During the Track Record Period, the components of the other income of our Group and their respective percentage of the total other income are summarised below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Other income										
Sales of electricity and steam	7,231	65.4%	1,394	24.8%	2,666	40.8%	2,153	44.5%	1,160	24.2%
Interest income	1,733	15.7%	2,696	48.1%	2,300	35.2%	1,511	31.3%	1,102	22.9%
Government grants	890	8.0%	270	4.8%	428	6.6%	415	8.6%	1,503	31.3%
Sundry income	1,202	10.9%	1,250	22.3%	1,134	17.4%	755	15.6%	1,038	21.6%
Total	**11,056**	**100.0%**	**5,610**	**100.0%**	**6,528**	**100.0%**	**4,834**	**100.0%**	**4,803**	**100.0%**

Other income mainly represented incomes derived from sales of electricity and steam and interest income. During the Track Record Period, our Group sold electricity and steam generated by our own power generation facilities to the regional power grid and third party factories. Income generated from these sales was approximately RMB7.2 million, RMB1.4 million, RMB2.7 million and RMB1.2 million, respectively, representing approximately 65.4%, 24.8%, 40.8% and 24.2% of total other income, respectively, for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010. As at the Latest Practicable Date, our Group has stopped selling our electricity and steam to those third party factories and regional power grid. As advised by our Directors, our Group's arrangement with the regional power grid was to supply electricity at a rate to be agreed by the parties based on the then prevailing market rate, while our Group's arrangement with the third parties was to supply electricity for 315 days per year. The price of the electricity was at a rate to be agreed by the parties based on the then prevailing market rate. For the details of sales of electricity and steam, please refer to the section "Business" in this prospectus. Meanwhile, interest income mainly represents the interest from bank deposits during the Track Record Period.

During the Track Record Period, our Group was awarded different types of government grants, mainly non-recurring in nature, by the PRC provincial and local government authorities as an encouragement to the technological innovation of our PRC subsidiaries. These grants were mainly related to the government incentive for our continuous investment in research and development projects regarding the technological innovation on our production facilities for corrugated medium paper. Our Directors confirmed that our Group has fulfilled all the conditions attached to the government grants.

Other gains and losses

Other gains and losses mainly related to the exchange gain or loss during our ordinary course of business, impairment loss on receivables and gain or loss on disposal of property, plant and equipment.

Distribution and selling expenses

During the Track Record Period, the components of the distribution and selling expenses of our Group and their respective percentage of the total distribution and selling expenses are summarised as below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Distribution and selling expenses										
Distribution and delivery costs	13,427	77.3%	14,318	71.1%	13,999	68.3%	9,965	68.0%	10,379	60.7%
Staff costs	3,145	18.1%	4,908	24.4%	5,375	26.2%	3,879	26.4%	5,954	34.8%
Depreciation expenses	369	2.1%	616	3.1%	809	3.9%	574	3.9%	537	3.1%
Others	421	2.5%	288	1.4%	321	1.6%	248	1.7%	239	1.4%
Total	**17,362**	**100.0%**	**20,130**	**100.0%**	**20,504**	**100.0%**	**14,666**	**100.0%**	**17,109**	**100.0%**
Total as % of sales	2.5%		2.4%		2.8%		2.8%		2.3%	

During the Track Record Period, our distribution and selling expenses primarily represented: (i) distribution and delivery costs in connection with the delivery of our products; (ii) staff costs for our sales and marketing staffs; and (iii) depreciation expenses for our distribution and delivery fixed assets (i.e. our owned delivery truck fleets).

Distribution and delivery costs

Distribution and delivery costs mainly represented the costs incurred in the delivery of our paper-based packaging products and corrugated medium paper by both our owned truck fleets and third parties logistics companies in the PRC during the Track Record Period. The distribution and delivery costs accounted for approximately 77.3%, 71.1%, 68.3% and 60.7% of our total distribution and selling expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010.

Staff costs

Staff costs mainly represented the salaries payable to our staff relating to the sales department which accounted for approximately 18.1%, 24.4%, 26.2% and 34.8% of our distribution and selling expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Depreciation expenses

Depreciation expenses mainly represented the wear off cost for our owned trucks which accounted for approximately 2.1%, 3.1%, 3.9% and 3.1% of our distribution and selling expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Administrative and other expenses

During the Track Record Period, the components of the administrative and other expenses of our Group and their respective percentage of the total administrative and other expenses are summarised as below:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*	*RMB'000* (unaudited)	*% of Total*	*RMB'000*	*% of Total*
Administrative and other expenses										
Staff costs	17,276	47.4%	22,579	53.3%	19,017	48.9%	13,529	49.2%	20,062	47.4%
Research and development costs	7,380	20.2%	8,615	20.3%	8,393	21.6%	5,472	19.9%	5,744	13.6%
Travelling expenses	3,301	9.0%	3,403	8.0%	2,828	7.3%	2,053	7.5%	2,366	5.6%
Depreciation expenses	566	1.5%	1,121	2.6%	1,329	3.4%	1,072	3.9%	1,582	3.7%
Rental expenses and management fees	1,140	3.1%	1,162	2.7%	1,236	3.2%	988	3.6%	1,381	3.3%
Office expenses	1,289	3.5%	1,026	2.4%	965	2.5%	633	2.3%	976	2.3%
Bank charges	497	1.4%	631	1.5%	719	1.8%	369	1.3%	613	1.4%
Legal and professional fee	1,424	3.9%	447	1.1%	404	1.0%	348	1.3%	5,555	13.1%
Others	3,665	10.0%	3,440	8.1%	3,986	10.3%	3,039	11.0%	4,074	9.6%
Total	**36,538**	**100.0%**	**42,424**	**100.0%**	**38,877**	**100.0%**	**27,503**	**100.0%**	**42,353**	**100.0%**
Total as % of sales	5.3%		5.1%		5.2%		5.2%		5.6%	

Our administrative and other expenses primarily consist of: (i) staff costs; (ii) research and development costs; (iii) travelling expenses; (iv) depreciation expenses; (v) rental expenses and management fees; and (vi) office expenses.

Staff costs

Staff costs mainly represented the salaries, benefits and the year-end bonuses payable to our administrative staffs which accounted for approximately 47.4%, 53.3%, 48.9% and 47.4% of our total administrative and other expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Research and development costs

Research and development costs in respect of our products mainly represented the costs spent on improving the quality and widening the product range of corrugated medium paper for both our internal use to manufacture our paper-based packaging products and as product to sell to third parties. These costs accounted for approximately 20.2%, 20.3%, 21.6% and 13.6% of our total administrative and other expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Travelling expenses

Travelling expenses were mainly related to the expenses of business trips which accounted for approximately 9.0%, 8.0%, 7.3% and 5.6% of our total administrative and other expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Depreciation expenses

Depreciation expenses were mainly related to the depreciation expenses of our office equipment and properties in Zhongshan and Zhuhai, Guangdong Province, the PRC, which accounted for approximately 1.5%, 2.6%, 3.4% and 3.7% of our total administrative and other expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Rental expenses and management fees

Rental expenses and management fees mainly represented the expenses used for renting the offices for administrative purposes. These expenses accounted for approximately 3.1%, 2.7%, 3.2% and 3.3% of our total administrative and other expenses for each of the three years ended 31 December 2009 and for the nine months ended 30 September 2010, respectively.

Others

Others mainly included bank charges, legal and professional fees and telecommunication expenses and other office expenses.

Finance costs

During the Track Record Period, finance costs represented interest on bank loans, interest on discounting bills and interest on finance leases of fixed assets.

A change in the interest rate could have an impact on our interest on bank loans, in turn affect our profit. A 50 basis points increase or decrease on variable bank loans are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates. If interest rates on bank loan balances had been 50 basis points higher and all other variables were held constant, the below indicates a decrease in profit for the year/period.

	Year ended 31 December			Nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease in profit before tax for the year or period	178	165	278	292

Income tax expense

We are not taxed on a consolidated basis. Our effective tax rate may fluctuate as a consequence of: (a) increased or decreased profits derived from certain of our subsidiaries that are taxed at preferential rates based on relevant PRC tax laws and regulations; (b) certain expenses not deductible for tax purposes; and (c) certain non-taxable income. See also the sub-section headed "Major factors affecting our Group's results of operations and financial conditions — Level of income tax and preferential tax treatment" in this section above.

The expenses not deductible for tax purposes in 2008 were mainly due to an erroneous adjustment by one of our subsidiaries in the PRC in regards to its costs of sales. The mistake amounted to approximately RMB18.4 million on its statutory financial statements. As a result, the taxable profit of this subsidiary was overstated by approximately RMB18.4 million. Although an application of deducting the future taxable profit in this regard has been filed to the relevant tax bureau, the outcome of the application remained uncertain up to the Latest Practicable Date. Therefore, our Directors consider such expenses are not deductible for tax purposes. Other than the effect due to the abovementioned incident, the remaining tax effect of expenses not deductible for tax purposes during the Track Record Period was mainly non-deductible welfare expenses.

In accordance to PRC tax circular (Guoshuihan [2008] 112), withholding tax has been imposed on dividends declared in respect of profits earned by the PRC entities from 1 January 2008 onwards. During the Track Record Period, the PRC subsidiaries of our Group, except for Zhong Tang Shi Ye, only declared and paid the dividends in relation to the profits prior to 1 January 2008. During the nine months ended 30 September 2010, Zhong Tang Shi Ye declared and paid dividends to Zheng Ye International on the profits arisen during the years ended 31 December 2008 and 2009, and the relevant withholding tax amounted to RMB181,000 was paid.

Our Group has no intention to distribute the profits generated from our PRC subsidiaries in relation to the period from 1 January 2008 to 31 October 2010 in the foreseeable future. Saved for disclosed above, our Directors have confirmed that no further provision has been made for the dividend withholding tax during the Track Record Period.

Period-to-period analysis of our trading record

Comparison between the nine months ended 30 September 2010 and the nine months ended 30 September 2009

Revenue

Revenue of our Group for the nine months ended 30 September 2010 was approximately RMB758.2 million, representing an increase of approximately RMB226.6 million or approximately 42.6% from approximately RMB531.6 million for the nine months ended 30 September 2009. Our Group's revenue comprises sales of paper-based packaging products and corrugated medium paper, which accounted for approximately 55.7% and 44.3%, respectively, of our Group's revenue for the nine months ended 30 September 2010, and approximately 51.8%, and 48.2%, respectively, of our Group's revenue for the nine month ended 30 September 2009.

Revenue contributed by our sales of paper-based packaging products was approximately RMB422.6 million for the nine months ended 30 September 2010 as compared with approximately RMB275.4 million in the same period in 2009, representing an increase of approximately RMB147.2 million or approximately 53.4%. Such increase in revenue was mainly due to an increase in the total quantity of paper-based packaging products sold for the nine months ended 30 September 2010, in terms of sq.m., of approximately 33.4% from that in 2009, which was driven by an increase in our sales orders from those customers who are household air-conditioner manufacturers. The increase in revenue was also the result of an increase in average selling price per sq.m. of our paper-based packaging products of approximately 12.9%, for the nine months ended 30 September 2010 from the same period in 2009.

Revenue contributed by our sale of corrugated medium paper was approximately RMB335.5 million for the nine months ended 30 September 2010 as compared with approximately RMB256.1 million in the same period in 2009. Even with a decrease of approximately 8.2% in the total quantity of corrugated medium paper sold for the nine months ended 30 September 2010 from that in 2009, the average selling price per tonne increased by approximately 42.7% from that in 2009. As a result, our Group recorded an increase in sales of corrugated medium paper of approximately RMB79.4 million or approximately 31.0% from that of in 2009. The slight decrease in the sales volume of our corrugated medium paper, from approximately 134,000 tonnes for the nine months ended 30 September 2009 to approximately 123,000 tonnes for the nine months ended 30 September 2010, was mainly attributable to change in product mix sold to our customers. During the nine months ended 30 September 2010, more sales orders for low quantum corrugated medium paper, such as 75 g/m^2 corrugated medium paper, were placed by our customers as compared to that of in 2009; thus, the overall sales volume in terms of tonnes decreased. Meanwhile, the increase in average selling price of corrugated medium paper per tonne was primarily attributable to the increase in the then prevailing market price.

Cost of sales

Cost of sales of our Group for the nine months ended 30 September 2010 was approximately RMB619.1 million, representing an increase of approximately RMB190.8 million or approximately 44.5% from approximately RMB428.3 million for the nine months ended year ended 30 September 2009. Significant increase in our cost of sales was mainly due to an increase in overall sales of our group during the nine months ended 30 September 2010 which then resulted in an increase in the related cost of sales. Furthermore, there was an increase in cost of manufacturing overhead by approximately RMB17.5 million, which was driven by the increased utilities cost. The increase in utilities cost from approximately RMB59.2 million for the nine months ended 30 September 2009 to approximately RMB77.1 million for the nine months ended 30 September 2010 was mainly attributable to the increase in the purchase cost of coal.

Gross profit and gross profit margin

Gross profit of our Group for the nine months ended 30 September 2010 was approximately RMB139.1 million, representing an increase of approximately RMB35.8 million or approximately 34.7% from approximately RMB103.3 million for the nine months ended 30 September 2009. Our gross profit margin for the nine months ended 30 September 2010 was approximately 18.3%, while the gross profit margin was approximately 19.4% for the nine months ended 30 September 2009. The slight decrease in gross profit margin of approximately 1.1% was principally due to the decrease in gross profit margin of our paper-based packaging products. During the nine months ended 30 September 2010, our Group recorded an increase in average purchase cost of raw paper from approximately RMB3,025 per tonne in 2009 to RMB3,808 per tonne for the nine months ended 30 September 2010. Although our Group since then adjusted our selling price of the paper-based packaging products, the average selling price per sq.m. increased to approximately RMB3.5. The increase in average selling price per sq.m. was at a smaller extent than the increase in purchase cost of raw paper. Thus, our Group's gross profit margin of paper-based packaging products decreased.

Other income

Other income of our Group for the nine months ended 30 September 2010 was approximately RMB4.8 million, which has no material difference from the approximately RMB4.8 million for the nine months ended 30 September 2009.

Other gains and losses

Other gains and losses of our Group for the nine months ended 30 September 2010 were approximately RMB12.8 million. The amount mainly represented the gain on disposal of property plant and equipment during the period.

Distribution and selling expenses

Distribution and selling expenses of our Group for the nine months ended 30 September 2010 were approximately RMB17.1 million, or approximately 2.3% of our total revenue, representing a increase of approximately RMB2.4 million, or approximately 16.3%, from approximately RMB14.7 million, or approximately 2.8% of our total revenue for the nine months ended 30 September 2009. The increase in our distribution and selling expenses were primarily due to the increase in staff costs by approximately RMB2.1 million as a result of the increase in the average monthly headcount of our distribution and selling teams during the nine months ended 30 September 2010.

Administrative expenses and other expenses

Administrative expenses and other expenses of our Group for the nine months ended 30 September 2010 were approximately RMB42.4 million, representing an increase of approximately RMB14.9 million or approximately 54.2% from approximately RMB27.5 million for the nine months ended 30 September 2009. Significant increase in our administrative expenses was mainly due to an increase in staff cost of approximately RMB6.5 million as a result of the increase in the average monthly headcount of our administrative staffs as well as the increase in average monthly salaries. In addition, there was a listing expense of approximately RMB5.1 million incurred during the nine months ended 30 September 2010 which also led to an increase in administrative expenses.

Finance costs

Finance costs of our Group for the nine months ended 30 September 2010 were approximately RMB11.9 million, representing an increase of approximately RMB2.2 million, or approximately 22.7%, from approximately RMB9.7 million for the nine months ended 30 September 2009. The significant increase in our finance costs was mainly attributable to the increase in interest of discounting bills by approximately RMB1.2 million due to an increase in amount of bills received for increasing the flexibility of working capital for the nine months ended 30 September 2010 when compared to that in 2009.

Income tax expense

Income tax expense of our Group for the nine months ended 30 September 2010 was approximately RMB13.9 million, representing an increase of approximately RMB6.4 million or of approximately 85.3% from approximately RMB7.5 million for the nine months ended 30 September 2009. This increase was mainly due to an increase in our profit before tax during the nine months ended 30 September 2010. Our effective tax rate for the nine months ended 30 September 2010 was approximately 16.3%, as compared to approximately 13.4% for the nine months ended 30

September 2009. The increase in our effective tax rate is primarily attributable to the fact that: (i) the lapse of two year exemption period from one of our Group's subsidiaries, Zheng Ye Packaging (Zhu Hai) after the year ended 31 December 2009, and now is eligible for a 50% reduction of enterprise income tax treatment; and (ii) a listing fee of approximately RMB5.1 million was non-deductible in nature.

Profit and total comprehensive income ("Net Profit") for the year and net profit margin

As a combined result of the factors described above, our Net Profit for the nine months ended 30 September 2010 increased significantly by approximately RMB22.9 million or approximately 47.1% from approximately RMB48.6 million for the nine months ended 30 September 2009 to approximately RMB71.5 million for the nine months ended 30 September 2010. Net profit margin for the nine months ended 30 September 2010 improved from approximately 9.2% for the nine months ended 30 September 2009 to approximately 9.4% for the nine months ended 30 September 2010.

Year-to-year analysis of our trading record

Comparison between the financial year ended 31 December 2009 and the financial year ended 31 December 2008

Revenue

Revenue of our Group for the year ended 31 December 2009 was approximately RMB743.4 million, representing a decrease of approximately RMB93.0 million, or approximately 11.1%, from approximately RMB836.4 million for the year ended 31 December 2008. Our Group's revenue comprises sales of paper-based packaging products and corrugated medium paper, which accounted for approximately 52.3% and 47.7%, respectively of our Group's revenue for the year ended 31 December 2009.

Revenue contributed by our sales of paper-based packaging products was approximately RMB388.5 million for the year ended 31 December 2009, as compared to approximately RMB371.6 million for the year ended 31 December 2008, representing an increase of RMB16.9 million or 4.5%. The sales volume of paper-based packaging products, in terms of sq.m., increased by approximately 15.9%, when compared to that of the year 2008. The increase was primarily driven by the increase in our production capacity and the general recovery of the global economy after the financial crisis in late 2008. The average selling price of our paper-based packaging products decreased by approximately 11.8%, from approximately RMB3.4 per sq.m. for the year ended 31 December 2008 to approximately RMB3.0 per sq.m. for the year ended 31 December 2009. This decrease was primarily attributable to the decrease in the average purchase cost of raw paper per tonne from approximately RMB3,687 for the year ended 31 December 2008 to approximately RMB3,025 for the year ended 31 December 2009.

Revenue contributed by our sale of corrugated medium paper was approximately RMB354.9 million for the year ended 31 December 2009 as compared to approximately RMB464.8 million for the year ended 31 December 2008. While we recorded a slight increase of approximately 3.4% in the sales volume of corrugated medium paper sold for the year ended 31 December 2009 from that of in 2008, the average selling price per tonne decreased by approximately 26.2% from that of in 2008. As a result, our Group recorded a decrease of RMB109.9 million or 23.6% in sales of corrugated medium paper from that in 2008. The increase in sales volume of our corrugated medium paper from approximately 177,000 tonnes for the year ended 31 December 2008 to approximately 183,000 tonnes for the year ended 31 December 2009 was mainly attributable to the general recovery of the economy after the global financial crises in late 2008, which then resulted in an increase in sales orders placed from various customers of corrugated medium paper. Meanwhile, the decrease in average selling price per tonne was primarily attributable to the decrease in the then prevailing market price.

Cost of sales

Cost of sales of our Group for the year ended 31 December 2009 was approximately RMB604.3 million, representing a decrease of approximately RMB129.2 million, or of approximately 17.6%, from approximately RMB733.5 million for the year ended 31 December 2008. This significant decrease in our cost of sales was mainly due to a decrease in overall revenue of our Group during the year 2009. During the year 2008, the purchase costs of waste paper, with reference to the then prevailing market price of waste paper, were approximately RMB1,258 per tonne on average, where the average price per tonne in the first three quarters and the last quarter in 2008 was approximately RMB1,384 and RMB873, respectively, whereas the purchase costs of waste paper, with reference to the prevailing market price of waste paper in year 2009, were approximately RMB831 per tonne on average for the year 2009. The purchase cost of waste paper per tonne in the first three quarters and the last quarter in 2009 was approximately RMB756 and approximately RMB1,040, respectively. These costs represented an approximately 33.9% decrease in price when comparing the average price in year 2009 to that in 2008. The decrease was due to the financial crisis in late 2008 which lead to a significant drop in waste paper prices. During the year 2009, the price of waste paper had not yet recovered to the level of early 2008. As a result, the decrease in cost of sales in 2009 was to a larger extent than the decrease in sales during year 2009.

Gross profit and gross profit margin

Gross profit of our Group for the year ended 31 December 2009 was approximately RMB139.1 million, representing an increase of approximately RMB36.2 million, or approximately 35.2%, from approximately RMB102.9 million for the year ended 31 December 2008. Our gross profit margin for the year ended 31 December 2009 was approximately 18.7%, while the gross profit margin was approximately 12.3% for the year ended 31 December 2008. The increases in our gross profit and gross profit margin were mainly attributable to the fact that the economy was recovering after the financial crisis in 2008. The drop in gross profit margin in year 2008 was mainly due to a fall in gross profit margin in manufacturing of corrugated medium paper in year 2008, which will be further discussed under the sub-section headed "Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007" below.

Other income

Other income of our Group for the year ended 31 December 2009 was approximately RMB6.5 million, representing an increase of approximately RMB0.9 million, or approximately 16.1%, from approximately RMB5.6 million for the year ended 31 December 2008. The increase in other income was mainly due to an increase in net income from the sales of electricity for the year ended 31 December 2009, which was resulted from the decrease in average purchase cost of coal and thus lower the cost of generating electricity.

Distribution and selling expenses

Distribution and selling expenses of our Group for the year ended 31 December 2009 were approximately RMB20.5 million, or approximately 2.8% of total revenue, representing a slight increase of approximately RMB0.4 million, or approximately 2.0%, from approximately RMB20.1

million, or approximately 2.4% of total revenue for the year ended 31 December 2008. The slight increase in our distribution and selling expenses were primarily due to the effect of an increase in staff cost by approximately RMB0.5 million as a result of slight increase in the average monthly headcount of distribution and selling teams for the expansion of our distribution team during the year 2009.

Administrative expenses and other expenses

Administrative expenses and other expenses of our Group for the year ended 31 December 2009 were approximately RMB38.9 million, representing a decrease of approximately RMB3.5 million, or by approximately 8.3%, from approximately RMB42.4 million for the year ended 31 December 2008. This decrease in our administrative and other expenses was mainly due to a decrease in staff cost by approximately RMB3.6 million as a result of a decrease in average monthly headcount for our administrative staffs and a decrease in the average salaries due to a salaries cut in late 2008 as cost control measure after the financial crisis in the last quarter of year 2008.

Finance costs

Finance costs of our Group for the year ended 31 December 2009 were approximately RMB13.1 million, representing a decrease of approximately RMB4.8 million, or approximately 26.9%, from approximately RMB17.9 million for the year ended 31 December 2008. This significant decrease in finance costs was mainly attributed to a decrease in interest of loans by approximately RMB4.9 million, due to a decrease in monthly average balance of our interest-bearing loans by approximately 6.7% from approximately RMB150.4 million for the year ended 31 December 2008 to approximately RMB140.4 million for the year ended 31 December 2009. Furthermore, the decrease was attributable to the decrease in the average interest rate for interest-bearing loans during the year 2009.

Income tax expense

The income tax expense of our Group for the year ended 31 December 2009 was approximately RMB10.0 million, representing an increase of approximately RMB4.2 million or approximately 72.4% from approximately RMB5.8 million for the year ended 31 December 2008. Such an increase was mainly due to the increase in our profit before tax during the year ended 31 December 2009. Our effective tax rate for the year ended 31 December 2009 was approximately 13.8%, as compared to approximately 19.2% for the year ended 31 December 2008. The decrease in our effective tax rate is primarily attributable to the overpaid income tax for the year ended 31 December 2008 as stated in the sub-section "Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007" below.

Profit and total comprehensive income for the year and net profit margin

As a combined result of the factors described above, our Net Profit for the year ended 31 December 2009 significantly increased by approximately RMB37.8 million or approximately 154.5% from approximately RMB24.5 million for the year ended 31 December 2008 to approximately RMB62.3 million for the year ended 31 December 2009. Net profit margin for the year ended 31 December 2009 improved significantly from approximately 2.9% for the year ended 31 December 2008 to approximately 8.4% for the year ended 31 December 2009.

Comparison between the financial year ended 31 December 2008 and the financial year ended 31 December 2007

Revenue

Revenue of our Group for the year ended 31 December 2008 was approximately RMB836.4 million, representing an increase of approximately RMB148.9 million or approximately 21.7% from approximately RMB687.5 million for the year ended 31 December 2007. Our Group's revenue comprised sales of paper-based packaging products and corrugated medium paper, which accounted for approximately 44.4% and 55.6%, respectively, of our Group's revenue for the year ended 31 December 2008, and approximately 43.3% and 56.7%, respectively, of our Group's revenue for the year ended 31 December 2007.

Revenue contributed by our sales of paper-based packaging products was approximately RMB371.6 million for the year ended 31 December 2008 as compared to approximately RMB298.0 million in 2007, representing an increase of approximately RMB73.6 million or 24.7%. The sales volume of paper-based packaging products, in terms of sq.m., increased by approximately 21.0% when compared to that of the year 2007. The increase was primarily driven by the expansion of our customer base to include those customers in the food condiment industry and an increase in sales orders by our existing customers, especially after our expansion of paper-based packaging production base in Zhuhai in 2008. Meanwhile, the average selling price of our paper-based packaging products remained stable during the year ended 31 December 2007 and 2008.

Revenue contributed by our sale of corrugated medium paper was approximately RMB464.8 million for the year ended 31 December 2008 as compared with approximately RMB389.6 million in 2007. Total quantity of corrugated medium paper sold for the year ended 31 December 2008 increased by approximately 7.3% as compared to that in 2007 due to the general increase in our sales orders and production capacity. In addition, the average selling price per tonne of our corrugated medium paper increased by approximately 11.2% from that in 2007, resulting in an increase of approximately RMB75.2 million or 19.3% in sales of corrugated medium paper from that of 2007. The increase in average selling price per tonne was primarily attributable to the increase in the prevailing market price.

Cost of sales

Cost of sales of our Group for the year ended 31 December 2008 was approximately RMB733.5 million, representing an increase of approximately RMB167.0 million, or of approximately 29.5%, from approximately RMB566.5 million for the year ended 31 December 2007. This significant increase in our cost of sales was in line with the overall sales of our Group during the year 2008. Also, there was an increase in cost of manufacturing overhead by approximately RMB60.9 million, which was driven by the increased utilities costs. The utilities cost increased from approximately RMB47.2 million for the year 31 December 2007 to approximately RMB99.6 million for the year 31 December 2008, which was mainly attributable to the increase in purchase cost of coal in generating the electricity. The average purchase cost of coal increased from approximately RMB464.8 per tonne for the year ended 31 December 2007 to approximately RMB613.0 per tonne for the year ended 31 December 2008.

Gross profit and gross profit margin

Gross profit of our Group for the year ended 31 December 2008 was approximately RMB102.9 million, representing a decrease of approximately RMB18.2 million, or approximately 15.0% from approximately RMB121.1 million for the year ended 31 December 2007. Our gross profit margin for the year ended 31 December 2008 was approximately 12.3%, while the gross profit margin was approximately 17.6% for the year ended 31 December 2007. The overall drop in gross profit margin in year 2008 was mainly due to a fall in gross profit margin in the manufacturing of corrugated medium paper.

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. Such decrease was mainly due to the following reasons.

Firstly, there was a decrease in average selling price in late 2008. As the prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Our average selling price decreased in the last quarter of 2008 as compared to that in the first three quarters of 2008.

Secondly, there was an increase in our average purchase cost of waste paper. During the first three quarters of 2008, our purchase cost of waste paper increased significantly from approximately RMB1,182 per tonne to approximately RMB1,384 per tonne for the year ended 31 December 2007 and the first three quarters of 2008, respectively, and then decreased to approximately RMB873 per tonne for the last quarter of 2008. Since most of our purchase orders for waste paper were placed during the first three quarters of 2008, at a relative higher purchase cost, the overall purchase cost of waste paper for 2008 increased significantly as compared to that in 2007.

Lastly, there was an increase in our utilities costs. One of our Group companies, Yong Fa Paper, had its own heat and electricity co-generation plant located in Zhongshan with an aggregate installed capacity of 33 MW. The heat and electricity co-generation plant provides both electric power and steam to all of our paper machines for the production of our corrugated medium paper. Coal was the principal fuel for this heat and electricity co-generation plant. The increase in purchase cost of coal during the year 2008 also led to increase in our utilities costs from approximately RMB47.2 million in 2007 to approximately RMB99.6 million in 2008, representing an increment of approximately 111%. The above costs increase led to an increase in the average unit cost of our corrugated medium paper products by approximately 26.3% from approximately RMB1,900 per tonne to approximately RMB2,400 per tonne for the year ended 31 December 2007 and 2008, respectively.

Other income

Other income of our Group for the year ended 31 December 2008 was approximately RMB5.6 million, representing a decrease of approximately RMB5.5 million, or approximately 49.5% from approximately RMB11.1 million for the year ended 31 December 2007. The decrease in other income was mainly due to a decrease in net income from the sale of electricity for the year ended 31 December 2008 which was resulted from an increase in the average purchase cost of coal and thus lower the cost of generating electricity in 2008. The average purchase cost of coal increased from approximately RMB464.8 per tonne for the year ended 31 December 2007 to approximately RMB613.0 per tonne for the year ended 31 December 2008.

Distribution and selling expenses

Distribution and selling expenses of our Group for the year ended 31 December 2008 were approximately RMB20.1 million, or approximately 2.4%, of total revenue, representing a slight increase of approximately RMB2.7 million, or approximately 15.5%, from approximately RMB17.4 million, approximately 2.5% of total revenue, for the year ended 31 December 2007. The increase in our selling and distribution expenses was primarily due to the increase in staff cost by approximately RMB1.8 million as a result of the increase in the average monthly headcount of distribution and selling teams for the expansion of our distribution team during the year 2008.

Administrative expenses and other expenses

Administrative expenses and other expenses of our Group for the year ended 31 December 2008 was approximately RMB42.4 million, representing an increase of approximately RMB5.9 million, or approximately 16.2%, from approximately RMB36.5 million for the year ended 31 December 2007. The significant increase in our administrative and other expenses was mainly due to an increase in staff cost of approximately RMB5.3 million resulting from an increase in the average monthly headcount of administrative staff as well as increased average monthly salaries.

Finance costs

Finance costs of our Group for the year ended 31 December 2008 were approximately RMB17.9 million, representing an increase of approximately RMB7.4 million, or approximately 70.5%, from approximately RMB10.5 million for the year ended 31 December 2007. The significant increase in our finance costs was mainly attributable to the increase in interest of loans by approximately RMB7.8 million, due to an increase in monthly average balance of our interest-bearing loans by approximately 16.9% from approximately RMB128.7 million for the year ended 31 December 2007 to approximately RMB150.4 million for the year ended 31 December 2008.

Income tax expense

Income tax expense of our Group for the year ended 31 December 2008 was approximately RMB5.8 million, representing a decrease of approximately RMB1.4 million, or approximately 19.4%, from approximately RMB7.2 million for the year ended 31 December 2007. This decrease was mainly due to the decrease in our profit before tax during the year ended 31 December 2008. The increase in our effective tax rate from approximately 10.6% for the year ended 31 December 2007 to approximately 19.2% for the year ended 31 December 2008 was mainly due to an one-off adjustment on cost of sales in our local management account of one of our subsidiaries, which was approximately RMB18.4 million, and mainly arose from a change in the costing method of our Group's inventory after the outburst of the financial crisis in the last quarter of the year 2008.

After the outburst of the financial crisis in the last quarter of the year 2008, there was a significant decrease in the then prevailing market price of paper products such as corrugated medium paper and raw materials such as waste paper. In view of our Group's cost-plus pricing model for our paper-based products in determining the selling price of our Group's products, it would be more reasonable and necessary to reflect the latest cost of sales of our Group's products by matching that with the then prevailing purchase cost of the relevant raw materials. So the management of our Group adopted the then latest purchase costs of the relevant raw materials in the calculation of costs of sales during the preparation of our Group's then local management account of one of our PRC subsidiaries for the period after the outburst of the global financial crisis in 2008. 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.

During the preparation of our Group's financial statements for each year ended 31 December 2007, 2008 and 2009 and for the nine months ended 30 September 2010 for the Listing, in accordance with HKFRS, our Directors applied a consistent set of accounting policies on inventory, i.e. weighted-average costing method, within our Group throughout the Track Record Period. As a result, the above-mentioned one-off adjustment on cost of sales was reconsidered and adjusted accordingly at our Group level in our Group's statement of comprehensive income, and the abovementioned understated costs were fully recognised as cost of sales. In order to avoid further occurrences of such mistakes, our Group's audit committee will oversee the financial reporting and internal control procedures of its PRC operating subsidiaries and all the local management accounts of the PRC operating subsidiaries will be reviewed and approved by our Group's audit committee. Further, our Group is considering the appointment of Deloitte Touche Tohmatsu CPA Limited as the auditors of the PRC statutory accounts of all of our Group's operating subsidiaries in the PRC after the Listing.

As at the Latest Practicable Date, our Group has engaged an external tax adviser to assist us in handling the relevant procedures regarding the tax refund application. The Company filed an application to the PRC tax bureau for a tax refund and the estimated amount of the refund is approximately RMB2.3 million. The refund is based on a 12.5% effective tax rate of the total one-off adjustment on cost of sales amounting to approximately RMB18.4 million in our local management account of one of our subsidiaries. As of the Latest Practicable Date, the application was still under assessment by the tax bureau. As such, there is insufficient information available for our Board to determine the ultimate outcome of the assessment at this stage. We have failed to notify the relevant PRC tax bureau in charge of such a change in costing determination method in accordance with provision 73 of the Implementation Rules. As advised by our legal advisers as to PRC law, the chance of the relevant PRC tax bureau taking action against us for such non-compliance, including without limitation, levying penalty against us therefor, is minimal in practice as we have made remedial adjustments in the costing determination method to maintain consistency with the customary practice and to eliminate the effect caused by the non-compliance (if any) and no corresponding penalty provisions for such failure are prescribed in the Implementation Rules.

Profit and total comprehensive income for the year and net profit margin

As a combined result of the factors described above, our Net Profit for the year ended 31 December 2008 significantly decreased by approximately RMB35.8 million or by approximately 59.4% from approximately RMB60.3 million for the year ended 31 December 2008 to approximately RMB24.5 million for the year ended 31 December 2007. Net profit margin for the year ended 31 December 2008 decreased significantly from approximately 8.8% for the year ended 31 December 2007 to approximately 2.9% for the year ended 31 December 2008.

DISCUSSION ON MAJOR BALANCE SHEET ITEMS AND KEY FINANCIAL RATIOS

	For the year ended 31 December			For the nine months ended 30 September
	2007	2008	2009	2010
Gross profit margin[1]	17.6%	12.3%	18.7%	18.3%
Net profit margin[2]	8.8%	2.9%	8.4%	9.4%
Current ratio[3]	1.1	1.0	1.1	1.0
Quick ratio[4]	0.9	0.9	0.9	0.9
Gearing ratio[5]	33.5%	37.4%	32.5%	38.0%
Inventory turnover days[6]	37 days	34 days	47 days	43 days
Debtors' turnover days[7]	92 days	75 days	87 days	83 days
Creditors' turnover days[8]	85 days	65 days	88 days	90 days

Notes:

(1) Gross profit margin is calculated based on the gross profit divided by revenue and multiplied by 100%.

(2) Net profit margin is calculated based on the profit for the year/period divided by revenue and multiplied by 100%.

(3) Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year/period.

(4) Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the year/period.

(5) Gearing ratio is calculated based on the total bank borrowings and amount due to related parties and directors and obligations under the finance lease divided by total assets at the end of the year/period and multiplied by 100%.

(6) Inventory turnover days is calculated based on the average inventory divided by the total cost of sales during the year and multiplied by the number of days during the year/period.

(7) Debtors' turnover days is calculated based on average trade receivables divided by revenue during the year/period and multiplied by the number of days during the year/period.

(8) Creditors' turnover days is calculated based on trade payables at the end of the year/period divided by the total cost of sales during the year and multiplied by the number of days during the year/period.

Inventory and inventory turnover days

The inventory turnover days of our Group decreased slightly from 37 days for the year ended 31 December 2007 to 34 days for the year ended 31 December 2008. The inventory turnover days increased from 34 days for the year ended 31 December 2008 to 47 days for the year ended 31 December 2009. During the year 2009, the market price of raw paper and finished goods experienced significant fluctuation and our Directors expected a further price increase in purchase of raw materials in 2010. To avoid being seriously affected by the increasing raw paper price, our Group procured more raw paper during the last few months of the year ended 31 December 2009. As a result, the inventory turnover days increased by 13 days.

The inventory turnover days of our Group decreased slightly from 47 days for the year ended 31 December 2009 to 43 days for the nine months ended 30 September 2010 and remained relatively stable during the periods.

Our inventories were approximately RMB68.5 million and RMB67.5 million as at 31 December 2007 and 31 December 2008, respectively. The balance was then further increased to approximately RMB87.0 million as at 31 December 2009. It was mainly attributable to the increase in inventory balance for the raw materials of our Group of approximately RMB19.3 million from approximately RMB45.4 million as at 31 December 2008 to approximately RMB64.7 million as at 31 December 2009. During the year 2009, our purchase price of raw materials experienced an increasing trend. Together with the increasing demand of our product, our Group procured more raw materials for our production. To avoid being seriously affected by the increasing raw material price, our Group procured more raw materials in the last quarter of 2009. The balance increased from RMB87.0 million to approximately RMB107.7 million as at 30 September 2010. This increase was mainly attributable to the increase in inventory balance for raw materials and finished goods of our Group totalling approximately RMB21.0 million from approximately RMB82.2 million as at 31 December 2009 to approximately RMB103.2 million as at 30 September 2010. Such increase was in line with the increased sales. Our Group procured the related raw materials for production in anticipation of an increase in sales volume in the last quarter of 2010. As of 31 December 2010, over 87% of our inventory as of 30 September 2010 was used or sold.

Trade, bills and other receivable, and debtors' turnover days

Our trade, bills and other receivables comprise trade receivables, bills receivables and other receivables. Trade receivables primarily represent the balances due from our paper-based packaging products customers. Depending on factors including the credit rating of our customers, the length of our relationships with them, the historic sales achieved by these customers and the target sales in the forthcoming years, we granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days, following the day of delivery. Bills receivables are similar to letters of credit in the respect that payments made by bills receivables are guaranteed by a bank. Bills receivables may be factored to banks and all our bills receivables were less than six months old at the end of each reporting period. Other receivables primarily include cash advances to staff, prepayments for our purchases and deposits paid to certain suppliers.

Our trade and bills receivable balances slightly increased from approximately RMB289.2 million as at 31 December 2007 to approximately RMB294.3 million as at 31 December 2008 primarily reflecting an increase in our sales. The balances increased to approximately RMB328.7 million as at 31 December 2009 though our sales decreased from 2008 to 2009. The balances increased to approximately RMB496.1 million as at 30 September 2010. The increase in trade and bills receivable balances was mainly due to the facts that there was an increase in our sales and more customers were settling through bills in general which the maturity dates were up to six months.

The increase in trade receivables, from approximately RMB198.8 million as at 31 December 2009 to approximately RMB261.2 million as at 30 September 2010, was attributable to the increase in sales in the third quarter of 2010. These included several major customers utilising bills for settlements which were evidenced by the increase in bills receivables from approximately RMB129.8 million as at 31 December 2009 to approximately RMB234.9 million as at 30 September 2010.

The increase in trade receivables as at 31 December 2009 as compared to that as at 31 December 2008 was mainly attributable to the tighter credit control implemented by our management after the outburst of the financial crisis in late 2008. Since the economy was deteriorating in late 2008, our Group became more conscious of debt collection by the end of 2008 in response to the uncertainty in the market. Thus, the receivable balance was relatively lower as at 31 December 2008 and a shorter debtor's turnover of approximately 75 days was noted in year 2008. During the year 2009, since the world economy was recovering, customers repaid according to the credit period granted to them.

The increase in trade receivables as at 30 September 2010 when compared to that as at 31 December 2009 was mainly attributable to the increase in sales in the third quarter of year 2010. The 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, with a debtors' turnover of approximately 87 days for the year ended 31 December 2009 and approximately 83 days for the nine months ended 30 September 2010. The receivable balance as at 31 December 2009 mainly represents three months of sales from October to December 2009 for our Group while the receivable balance as at 30 September 2010 mainly represents three months of sales from July to September 2010. Revenue increased for the third quarter in 2010 to approximately RMB275.1 million when compared to the revenue for the last quarter in 2009 of approximately RMB211.8 million, thus an increase in receivable balances.

Our average debtors turnover days decreased from 92 days in 2007 to 75 days in 2008, then increased to 87 days in 2009 and then decreased to 83 days as at 30 September 2010. The relatively low average debtors turnover days as at 31 December 2008 was primarily attributable to the tighter credit control implemented by our management in late 2008 after the financial crisis.

As part of our credit control, our sales team monitors the credit quality of our trade receivables and closely follows up with our customers for any outstanding receivables. In determining impairment losses, we conduct regular reviews of ageing analysis and evaluate collectibles on an individual basis. Our provision for doubtful debts as at 31 December 2007, 2008 and 2009 and 30 September 2010 was approximately nil, RMB0.2 million, RMB1.0 million and RMB1.0 million, representing nil, 0.1%, 0.5% and 0.4% of our trade receivable balances (before provision for doubtful debts), respectively. Also, during the Trade Record Period, there was no material change in the credit policy of our Group. As of 31 December 2010, approximately 87% or RMB226.1 million of our trade receivables as of 30 September 2010 had been settled. During the Track Record Period, there were no bad debts written off. However, we have written off the above mentioned provision for doubtful debts as at 30 September 2010 of approximately RMB1.0 million due to the default of a customer of Yong Fa Paper in December 2010.

Trade, bills and other payables, and creditors' turnover days

Our trade payables primarily consist of outstanding balances due to suppliers for our purchases of waste paper and other raw paper for paper-based packaging products. Our Group was granted a credit period of 30 to 120 days from the majority of our suppliers. Our trade and bills payables decreased from approximately RMB204.9 million as at 31 December 2007 to approximately RMB176.3 million as at 31 December 2008 primarily due to faster payments made to our suppliers during the period. Since the economy was deteriorating in late 2008, our suppliers demanded faster payments from their customers even though our Group's payables were within the credit period granted by those suppliers. Our trade, bills and other payables increased from approximately RMB176.3 million as at 31 December 2008 to approximately RMB240.8 million as at 31 December 2009. The increase in trade and bills payables as at 31 December 2009 when compared to that as at 31

December 2008 was mainly attributable to faster payments requested by suppliers in late 2008 after the outburst of financial crisis. During the year 2009, since the world economy was recovering, our Group wanted better control of working capital and tried to repay the payables by fully utilise the credit period granted by our suppliers. The balances were further increased to approximately RMB322.1 million as at 30 September 2010. The increase in trade and bills payables as at 30 September 2010 when compared to that as at 31 December 2009 was mainly attributable to the increase in purchases in the third quarter of year 2010, in order to cope with the increasing turnover of our Group as mentioned under the sub-paragraph headed "Trade, bills and other receivables and debtors' turnover days".

Our average creditors turnover days decreased from 85 days in 2007 to 65 days in 2008, then increased to 88 days in 2009 and 90 days as at 30 September 2010. The relatively lower average creditors turnover days as at 31 December 2008 was primarily attributable to faster payments made to suppliers as mentioned above.

During the Trade Record Period, there was no material change in the credit period granted by our major suppliers.

Other tax payables mainly represented the valued added tax payables while other payables mainly represented the payroll and welfare payables and construction payables as at each of the balance sheet dates of the Track Record Period.

Current and quick ratios

During the Track Record Period, our current ratio and quick ratio remained reasonably stable.

Gearing ratio

The gearing ratio of our Group increased from approximately 33.5% as at 31 December 2007 to approximately 37.4% as at 31 December 2008, then decreased to approximately 32.5 % as at 31 December 2009 and increased to approximately 38.0% as at 30 September 2010. The increase in our gearing ratio from the year 2007 to the year 2008 was mainly attributable to taking a loan in the amount of approximately RMB47.3 million, mainly used for the acquisition of property, plant and equipment. The decrease in our gearing ratio from the year 2008 to the year 2009 was mainly attributable to the general increase in the trade, bills and other receivables, inventories and pledged deposits, which in turn increased the total assets of our Group from approximately RMB768.2 million as at 31 December 2008 to approximately RMB889.1 million as at 31 December 2009.

Our gearing ratio then increased to 38.0% as at 30 September 2010, which was mainly due to an increase in the amount of bank and other borrowings of approximately RMB143.5 million, mainly used for the acquisition of property, plant and equipment and general operating uses.

Bank and other borrowings

Our total bank and other borrowings increased from approximately RMB195.2 as at 31 December 2007 to RMB242.4 million as at 31 December 2008. The amount further increased to approximately RMB261.9 million as at 31 December 2009. The increased bank and other borrowings were used for the expansion of our business operations. The balance then further increased to approximately RMB405.4 million as at 30 September 2010. The increase of approximately RMB143.5 million was mainly attributable to: (i) increase in short term bank loans of approximately RMB66.3 million and (ii) increase in discounted bills receivables of approximately RMB86.6 million. The increased amount was mainly used to finance capital expenditures and settle trade payables. The capital expenditure of our Group during the period for the nine months ended 30

September 2010 was primarily in relation to the installation of our Group's new production facilities in Zhongshan, Guangdong Province, the PRC for the expansion of our capacity to cope with the anticipated growing demand in the market.

Property, plant and equipment

Our Group's property, plant and equipment increased by approximately 26.0% or RMB43.5 million from approximately RMB167.6 million as at 31 December 2007 to approximately RMB211.1 million as at 31 December 2008. The increase was primarily due to the addition of approximately RMB56.3 million worth of property and equipment, which was offset by the depreciation expenses of approximately RMB12.7 million. The addition of property, plant and equipment was attributable to the installation of our new paper production facilities in Zhongshan, Guangdong Province, the PRC for the expansion of our production capacity.

Our Group's property, plant and equipment increased by approximately 6.1% or RMB12.8 million from approximately RMB211.1 million as at 31 December 2008 to approximately RMB223.9 million as at 31 December 2009. The increase was primarily due to the addition of equipment and machinery amounting to approximately RMB30.0 million which mainly represented the installation of the new production facilities in Zhongshan, Guangdong Province, the PRC and the depreciation expenses of approximately RMB17.2 million for the year ended 31 December 2009.

Our Group's property, plant and equipment increased by approximately 25.3% from approximately RMB223.9 million as at 31 December 2009 to approximately RMB280.6 million as at 30 September 2010. The increase was mainly attributable to the combined effect of: (i) the addition of property, plant and equipment in an amount of approximately RMB37.6 million for our factory in Zhongshan in order to cope with the increasing demand of our paper-based packaging products; (ii) the recognition of approximately RMB33.7 million construction in progress which is mainly related to the enhancement of equipment and machinery for manufacturing of corrugated medium paper; and (iii) the depreciation expenses of approximately RMB14.1 million for the nine months ended 30 September 2010.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

During the Track Record Period, our Group's principal sources of liquidity and capital resources were cash flow generated from operations. Our Group's principal use of cash has been, and is expected to continue to be, our operational costs. The following table summarises our cash flow during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flow					
Net cash from/(used in) operating activities	29,895	22,875	92,597	87,414	(13,190)
Net cash used in investing activities	(72,932)	(31,942)	(65,235)	(66,268)	(35,835)
Net cash from/(used in) financing activities	39,589	9,462	(25,238)	(22,811)	65,286
Net (decrease)/increase in cash and cash equivalents	(3,448)	395	2,124	(1,665)	16,261
Cash and cash equivalents at beginning of the year/period	34,997	31,549	31,944	31,944	34,068
Cash and cash equivalents at end of the year/period	31,549	31,944	34,068	30,279	50,329

Net cash from/(used in) operating activities

Net cash flow generated from operating activities primarily consists of profit before income tax adjusted for finance costs, interest income, depreciation and amortization, impairment loss on receivables and gain or loss on disposal of property, plant and equipment.

Our Group generates cash inflow from operating activities from the receipt of cash from manufacturing and sale of paper-based packaging products and corrugated medium paper to customers. Cash outflow from operating activities mainly represents amounts paid to our suppliers for the purchase of raw paper and waste paper and payment of production overheads, staff costs and operating expenses.

We had a net cash inflow from operating activities of approximately RMB29.9 million for the year ended 31 December 2007, while our operating profit before changes in working capital for the same period was approximately RMB83.8 million. Our changes in working capital for the year ended 31 December 2007 of approximately RMB43.9 million was primarily due to: (i) an increase in trade, bills and other receivables of approximately RMB36.8 million; (ii) an increase in inventory of approximately RMB22.7 million; and (iii) an increase in trade, bills and other payables of approximately RMB15.6 million as discussed under the sub-paragraphs headed "Trade, bills and other receivables and debtors' turnover days", "Inventory and inventory turnover days" and "Trade, bills and other payables and creditors' turnover days" in this section.

We had a net cash inflow from operating activities of approximately RMB22.9 million for the year ended 31 December 2008, while our operating profit before changes in for the same period was approximately RMB59.7 million. The movements in working capital of approximately RMB30.8 million was primarily due to: (i) a decrease in trade, bills and other payables of approximately RMB27.6 million; and (ii) an increase in trade, bills and other receivables of approximately RMB4.2 million as discussed under the sub-paragraphs headed "Trade, bills and other payables and creditors' turnover days", and "Trade, bills and other receivables and debtors' turnover days" in this section.

We had a net cash inflow from operating activities of approximately RMB92.6 million for the year ended 31 December 2009, while our operating profit before changes in working capital for the same period was approximately RMB102.4 million. The change in working capital of approximately RMB0.6 million was primarily due to: (i) an increase in trade, bills and other payables of approximately RMB69.7 million; (ii) an increase in trade, bills and other receivables of approximately RMB50.8 million; and (iii) an increase in inventory of approximately RMB19.5 million as discussed under the sub-paragraphs headed "Trade, bills and other payables and creditors' turnover days", "Trade, bills and other receivables and debtors' turnover days" and "Inventory and inventory turnover days" in this section.

We had a net cash outflow from operating activities of approximately RMB13.2 million for the nine months ended 30 September 2010, while our operating profit before changes in working capital for the same period was approximately RMB97.9 million. The operating cash outflow of approximately RMB101.6 million was primarily due to the composite effect of: (i) an increase in trade, bills and other receivables of approximately RMB170.5 million and (ii) an increase in trade and bills and other payables of approximately RMB89.7 million. As our Group expanded its business in 2010, revenue increased from approximately from RMB531.6 million for the nine months ended 30 September 2009 to approximately RMB758.2 million for the nine months ended 30 September 2010. In particular revenue increased for the third quarter of 2010 by approximately RMB275.1 million when compared to the revenue for the last quarter in 2009 of approximately RMB211.8 million. Thus, the trade and bills receivable balances increased, leading to a cash outflow.

Net cash used in investing activities

The major cash outflows of our investing activities during the Track Record Period were our capital expenditures on property, plant and equipment for the expansion of our production capacities.

Our net cash outflow from investing activities decreased from approximately RMB72.9 million for the year ended 31 December 2007 to approximately RMB31.9 million for the year ended 31 December 2008. The substantial decrease was mainly attributable to the improvement projects of plant and machineries during 2007 for manufacturing corrugated medium paper. These improvement projects were completed in 2007.

Our net cash used in investing activities increased from approximately RMB31.9 million for the year ended 31 December 2008 to approximately RMB65.2 million for the year ended 31 December 2009. The increase was attributable to the increase the pledged bank deposit.

Our net cash used in investing activities decreased from approximately RMB65.2 million for the year ended 31 December 2009 to approximately RMB35.8 million for the nine months ended 30 September 2010. The decrease mainly resulted from the combined effect of: (i) the payment of RMB54.7 million which was mainly related to our Group's addition of property, plant and equipment in 2010; and (ii) an advance to related parties.

Net cash from/(used in) financing activities

Our financing activities during the Track Record Period mainly included proceeds from and repayments of bank loans.

Our net cash inflow from financing activities decreased from approximately RMB39.6 million for the year ended 31 December 2007 to approximately RMB9.5 million for the year ended 31 December 2008. The decrease was mainly attributed to a composite effect of: (i) the increase in the bank and other borrowings of approximately RMB301.3 million to finance our purchase of property, plant and equipment; and (ii) the total amount of the bank loan that we repaid during the year ended 31 December 2008 was more than that for the year ended 31 December 2007.

For the year ended 31 December 2008, our net cash inflow from financing activities amounted to approximately RMB9.5 million, whereas, for the year ended 31 December 2009, we had a net cash outflow from financing activities of approximately RMB25.2 million. The change from cash inflow to cash outflow during the two periods was mainly due to the fact that we repaid a significant amount of the bank loan by bank borrowing and we paid the dividend and interest expenses from our operating activities.

Our net cash outflow for financing activities was approximately RMB25.2 million for the year ended 31 December 2009 while our net cash inflow for financing activities was approximately RMB65.3 million. Such cash inflow was mainly attributable to the increase in cash obtained from the bank and other borrowings of approximately RMB484.0 million, which was partially offset by the repayment of bank and other borrowings of approximately RMB340.5 million.

Capital structure

As at 30 September 2010, we had net assets of approximately RMB328.2 million, comprising non-current assets of approximately RMB354.2 million (principally consisting of property, plant and equipment), net current liabilities of approximately RMB10.0 million and non-current liabilities of approximately RMB16.0 million (consisting of a long term obligation under the finance lease).

Capital expenditure management

We expect to meet future capital expenditure requirements through our available cash and cash equivalents, cash generated from our operating activities, available banking facilities and the expected net proceeds from the Global Offering. The amount of our capital expenditures and capital commitments during the Track Record Period is shown as follows:

	For the year ended 31 December			For the nine months ended 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure	80,593	56,265	30,032	71,337

	As at 31 December			As at 30 September
	2007	**2008**	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital commitment	38,298	19,730	19,206	56,368

Capital expenditures and commitments mainly consist of the addition of property, plant and equipment for the new production facilities and the enhancement of equipment and machinery. Please refer to the sub-section "Property, plant and equipment" under this section for further details. The capital commitment as at 30 September 2010 is expected to be funded by two parts: (i) RMB32.1 million out of RMB56.4 million will be funded by finance lease; the lease will be effective in September 2011 and a monthly payment of approximately RMB0.7 million will last for 4 years; and (ii) the remaining commitments will be funded by short term bank loans and other borrowings and will probably be settled in September 2011.

Working capital position and cash flow management

We had net current liabilities of approximately RMB4.3 million as at 31 December 2008, which was mainly due to an increase in current liabilities of approximately RMB12.9 million and a decrease in current assets of approximately RMB16.9 million when compared to the positions as at 31 December 2007. Such a position was primarily driven by: (i) increase in short-term bank loans to support our capital expenditure on the increased production capacity in year 2008 the increase in short-term loans was mainly used as a capital expenditure which was discussed under the sub-section headed "Bank and other borrowings" under this section; (ii) a reduction in amounts due from related parties and directors under current assets.

We had net current liabilities of approximately RMB10.0 million as at 30 September 2010. Our net current liabilities position can be principally attributed to the utilisation of short-term bank and other borrowings from licensed banks in the PRC. Such increased borrowing was mainly used to support our capital expenditure in 2010 for the addition and enhancement of production facilities amounting to approximately RMB71.3 million in total, so as to cope with the increasing demand of our paper-based packaging products. The borrowing was also used to finance our unsettled trade and other payables as at 30 September 2010. The considerable amount of unsettled trade and other payables as at 30 September 2010, which are included in current liabilities, is mainly attributable to a credit period of approximately 30 days to 120 days granted to us by our suppliers and the trade and bills payables turnover days were 90 days, during the same period. Since it is our policy to adjust our cash receipts to cater to changes in our cash payments in order to manage our cash flow, the significant balance of trade and other payables was in line with the trend of our trade and other receivables.

We finance our working capital requirements primarily through cash flow from our operating activities and bank borrowings. The net cash generated from or used in our operating activities during the Track Record Period amounted to approximately RMB29.9 million, RMB22.9 million, RMB92.6 million and an outflow of RMB13.2 million for the three years ended 31 December 2009 and the nine months ended 30 September 2010, respectively.

We will improve our cash and working capital position by:

(i) preparing an annual working capital requirements budget at the beginning of each financial year;

(ii) projecting expected sales volume for the year to determine the level of our production that will need to be achieved before meeting such a target;

(iii) generating continuous cash flows from our operations;

(iv) obtaining debt financing; and

(v) monitoring our capital expenditures.

In order to monitor our capital expenditure, before making material investment decisions, we will consider: (i) the current and future cash requirement for capital expenditure and working capital purposes; (ii) the appropriate contingent capital needed; (iii) the expected payback period of the potential investment; and (iv) our assessment on our ability to raise additional debt and equity financing in light of the current and the future market conditions.

These factors will be monitored on a quarterly basis to ascertain whether actual results are in line with the budget. Where variances occur, our management will analyse such variances and modify our plans or implement new measures accordingly.

Following completion of the Global Offering, we expect our working capital position will improve, without relying on the short-term bank borrowings taking into account: (i) our cash flow from operating activities had remained positive for the three years ended 31 December 2009; (ii) capital required for our investing activities in accordance with the capital expenditure plan could be satisfied by the internally generated cash flow and the proceeds to be received by our Company from the Global Offering; and (iii) our historical working capital had proven to be sufficient for the operation of our Group during the Track Record Period. In addition, after taking into account the estimated net proceeds from the Global Offering, we expect we no longer will be in a net current liabilities position following completion of the Global Offering.

Net current liabilities as at 31 January 2011

As at 31 January 2011, being the latest practicable date for the preparation of the working capital sufficiency statement in this prospectus, we had net current liabilities of approximately RMB44.9 million, comprising current assets of approximately RMB708.9 million and current liabilities of approximately RMB753.8 million. The following table sets out the composition of our unaudited current assets and liabilities as at 31 January 2011:

	As at 31 January 2011
	RMB'000
Current Assets	
Inventories	118,928
Trade and other receivables	463,446
Prepaid lease payments	1,368
Pledged bank deposits	89,900
Bank balances and cash	35,280
	708,922
Current Liabilities	
Trade and other payables	(352,896)
Obligations under finance leases	(3,563)
Amounts due to related parties	(1,988)
Bank and other borrowings	(394,621)
Tax liabilities	(737)
	(753,805)
NET CURRENT LIABILITIES	**(44,883)**

We strive to effectively manage our cash flow and capital commitments and to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations, we also seek bank and other borrowings to fund our working capital requirements. We have maintained long-term relationships with various commercial banks in the PRC and we believe that our existing short-term bank loans will be accepted for renewal upon their maturity, if necessary. Since the beginning of the global financial recession, we have neither encountered major difficulties in securing and/or renewing bank borrowings, nor have we been charged an exceptionally high interest rate on our bank borrowings. We expect to finance our operations through a combination of operating cash inflows, proceeds from the Global Offering and/or bank and other borrowings.

Following completion of the Global Offering and taking into account the estimated net proceeds from the Global Offering, we expect we will no longer be in a net current liabilities position.

Directors' opinion on the sufficiency of our working capital

Taking into account the financial resources available to us, including internally generated funds, available banking facilities and the estimated net amounts of the Global offering, our Directors are of the opinion that the working capital available to our Group is sufficient for our present requirements for the next 12 months commencing from the date of the publication of this prospectus.

INDEBTEDNESS

Borrowing and banking facilities

Our Directors have confirmed that we have not experienced difficulties in meeting obligations and historically we have been able to repay or refinance our bank borrowings as and when they have fallen due. Our Directors are of the view that the recent changes in market interest rates do not have any material adverse impact on our Group's results and financial position.

For the balances of bank and other borrowings as at 30 September 2010, the amount mainly consists of three parts, which are: (i) short term bank loans of approximately RMB220.7 million; (ii) discounted bills receivables of approximately RMB179.1 million and (iii) other borrowings of approximately RMB5.7 million. The short term bank loans and other borrowings are expected to be funded by cashflow generated from operations and renewed bank loans while the discounted bills will be automatically settled when they become mature.

At the close of business on 31 January 2011, being the latest practicable date prior to the printing of this prospectus, our Group had outstanding bills payable of approximately RMB140.5 million and bank borrowings of approximately RMB391.0 million including short-term bank loans, bills discounted with recourse and trust receipt loans which was secured by fixed charges on certain of our Group's assets, including properties, lands, equipments, inventories and trade receivables. In addition, our Group had outstanding at that date obligations under finance leases of approximately RMB16.6 million and other borrowings of approximately RMB3.7 million which was secured by certain of our Group's equipment.

The following table sets out our indebtedness as at 31 January 2011:

	As at 31 January 2011 *RMB'000*
Bills Payables	140.5
Bank borrowings	391.0
Finance lease obligations	16.6
Other borrowings	3.7
Total	551.8

Our Group's banking facilities are also secured by personal guarantees given by certain directors. Each of the relevant banks has given its consent in principle to release all these guarantees and charges upon the Listing.

Debt securities

As at the close of business on 31 January 2011, we had no debt securities issued outstanding or authorised or otherwise created but unissued.

Contingent liabilities

As at 31 January 2011, our Group did not have any material contingent liabilities.

Disclaimer

Save as aforesaid in section headed "Financial Information — Indebtedness" in this prospectus, and apart from intra-group liabilities, our Directors have confirmed that our Group did not have outstanding at the close of business on 31 January 2011 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities. Our Directors have also confirmed there have been no material changes to our indebtedness since 31 January 2011.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Estimated combined net profit attributable to equity holders of our Company for the year ended 31 December 2010 [(1)]	Not less than HK$95.2 million or RMB80.0 million
Unaudited pro forma estimated earnings per Share for the year ended 31 December 2010 [(2)]	Not less than HK$0.19 or RMB0.16

Notes:

(1) The bases on which the above profit estimate has been prepared are set out in the section headed "Profit estimate for the financial year ended 31 December 2010" in Appendix III to this prospectus. Our Directors have prepared the estimated combined profit attributable to equity holders of our Company for the year ended 31 December 2010 based on the audited combined results of our Group for the nine months ended 30 September 2010 and the unaudited combined results of our Group for the three months ended 31 December 2010. The estimate has been prepared based on accounting policies consistent in all material respects with those adopted by our Group as summarised in the accountant's report of the financial information on the Group for the three years ended 31 December 2009 and the nine months ended 30 September 2010, the text of which is set out in Appendix I to this prospectus.

(2) The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated combined profit attributable to equity holders of our Company for the year ended 31 December 2010 and on the basis that 500,000,000 Shares are issued and outstanding during the entire period, assuming that the Global Offering had been completed on 1 January 2010. This calculation takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate or the repurchase mandate as described in the section headed "Share capital" in this prospectus.

The estimated combined profit attributable to the equity holders of our Company for the year ended 31 December 2010 was approximately RMB80.0 million of which approximately RMB71.4 million and RMB8.6 million represents the profit for the nine months ended September 2010 and for the three months ended 31 December 2010, respectively.

Our Group's net profit margin decreased from approximately 9% for the nine months ended 30 September 2010 to approximately 3% (unaudited) for the three months ended 31 December 2010. Apart from the decrease in the gross profit margin as discussed in the sub-section headed "Gross profit and gross profit margin" in this section of the prospectus, there was a decrease in other gains and an increase in administrative expenses during the three months ended 31 December 2010, mainly attributable to (i) our Group recorded a one-off gain on the disposal of property plant and equipment of approximately RMB13.8 million made during the nine months ended 30 September 2010, and (ii) the listing expenses, which was non-recurring in nature, amounted to approximately RMB6.2 million was recognized for the three months ended 31 December 2010, as compared to that of approximately RMB5.1 million recognised for the nine months ended 30 September 2010.

As the decline in the net profit margin of our Group is, to a large extent, due to factors that are non-recurring in nature, our Directors are of the view that the operation of our Group was not materially adversely affected. Accordingly, our Directors have confirmed that there have been no material adverse changes in our financial and trading position or prospects since 30 September 2010 and during the three months ended 31 December 2010.

DIVIDEND POLICY

During the years ended 31 December 2007, 2008, 2009 and nine months ended 30 September 2010, our Group declared a dividend of approximately RMB1.6 million, RMB6.1 million, RMB13.5 million and RMB36.4 million respectively to our shareholders. A dividend of approximately RMB47.6 million was declared by our Group to our shareholders during the three-month period from 1 October 2010 to 31 December 2010.

After completion of the Global Offering, Shareholders will be entitled to receive dividends declared by the Company. Dividend payments are discretionary and will be subject to the recommendation of the Board and approval of the Shareholders in general meetings or, in the case of interim dividends, subject to the approval of the Board in accordance with the Bye-Laws. The amount of any dividends to be declared by the Company in a given year in the future will depend on, among others, our Group's results of operations, available cashflows and financial conditions, operating and capital requirements, the amount of distributable profits based on the HKFRS, the Bye-laws, applicable laws and regulations and any other factors that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and agreements that our Group may enter into in the future.

Our Group conducts its core business operations through its operating subsidiaries in the PRC. Our profits available for dividend distributions are therefore dependent on the profits available for distribution from our PRC subsidiaries. Further details can be found in the section headed "Risk factors" in this prospectus.

In accordance to PRC tax circular (Guoshuihan [2008] 112), withholding tax has been imposed on dividends declared in respect of profits earned by the PRC entities from 1 January 2008 onwards. During the Track Record Period, the PRC subsidiaries of our Group, except for Zhong Tang Shi Ye, only declared and paid the dividends in relation to the profits prior to 1 January 2008. During the nine months ended 30 September 2010, Zhong Tang Shi Ye declared and paid dividends to Zheng Ye International on the profits arisen during the years ended 31 December 2008 and 2009, and the relevant withholding tax amounted to RMB181,000 was paid.

Our Group has no intention to distribute the profits generated from our PRC subsidiaries in relation to the period from 1 January 2008 to 31 October 2010 in the foreseeable future. Saved for disclosed above, our Directors have confirmed that no further provision has been made for the dividend withholding tax during the Track Record Period.

Subject to the factors above, our Board currently intends to recommend, at the relevant Shareholder's meetings of our Company, an annual dividend of not less than 30% of the net profit attributable to owners of our Company for the financial years subsequent to the Global Offering. Such intention does not amount to any guarantee or representing or indication that we must or will declare and pay dividends in such manner or declare and pay dividends at all.

DISTRIBUTABLE RESERVE

The Company was only incorporated on 18 August 2010. As at 30 September 2010, there was no reserve available for distribution to our Shareholders.

PROPERTY INTERESTS

As at 31 December 2010, our property interests were valued by CB Richard Ellis Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus.

The table below shows the reconciliation of property interests of our Group from our audited combined financial statement as at 30 September 2010 to the unaudited net asset value of the property interests of our Group as at 31 December 2010:

	Total
	RMB'000
Net book value as of 30 September 2010 *(audited)*	
Buildings	70,972
Prepaid land lease payment	59,785
Less: depreciation and amortization for the three months ended 31 December 2010	(1,582)
Net book value as of 31 December 2010 *(unaudited)*	129,175
Add: valuation surplus as of 31 December 2010	141,575
Valuation as of 31 December 2010 as set out in Appendix IV to this prospectus	270,750

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as at 30 September 2010 as if the Global Offering had occurred on 30 September 2010 and is based on the combined net tangible assets derived from the audited financial information of our Group as at 30 September 2010, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted combined net tangible assets of our Group has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of our Group.

	Audited combined net tangible asset of our Group as at 30 September 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HKD*
Based on the maximum indicative Offer Price of HK$1.93 per Offer Share	328,228	172,786	501,014	1.00	1.19
Based on the minimum indicative Offer Price of HK$1.43 per Offer Share	328,228	122,076	450,304	0.90	1.07

Notes:

(1) In accordance with our Group's accounting policies, leasehold land is an up-front payment made to acquire the right of use of a medium-term interest in land. These payments are stated at cost and amortised over the period of the related leases on a straight-line basis. Properties constructed on top of which are stated at historical cost less accumulated depreciation and impairment loss if any.

(2) As at 31 December 2010, CB Richard Ellis Limited, an independent property valuer, performed an independent valuation for our Group's leasehold land and buildings based on market value. CB Richard Ellis Limited reported valuation of the land and buildings at an amount of RMB270,750,000 as at 31 December 2010 and the revaluation surplus was RMB141,575,000. Our Group will not account for these revaluation surpluses in its future financial statements according to its accounting policies. If they were accounted for, the annum increases in amortisation and depreciation would have been increased by approximately RMB3,803,000.

(3) The estimated net proceeds from the Global Offering are based on the maximum and minimum indicative Offer Price of HK$1.93 and HK$1.43 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 500,000,000 Shares (including the Shares in issue as at 30 September 2010, Shares under the Capitalisation Issue and the Global Offering) are in issue and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised.

OFF BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements as at 30 September 2010.

NO ADVERSE MATERIAL CHANGE

Our Directors have confirmed that there have been no material adverse change in the financial and trading position or prospects of our Group since 30 September 2010 and up to the Latest Practicable Date.