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24 May 2011

The Directors
Zhengye International Holdings Company Limited
CMB International Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Zhengye International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2010 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 24 May 2011 (the "Prospectus") issued in connection with the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Bermuda on 18 August 2010 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a corporate reorganisation, as more fully explained in the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to the Prospectus (the "Corporate Reorganisation"), the Company became the holding company of the companies comprising the Group on 4 March 2011.

All companies now comprising the Group have adopted 31 December as their financial year end date. As at the date of this report, the Company has interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ registered capital	Equity interest attributable to the Group At 31 December 2008	2009	2010	At date of report	Principal activity
TYAZ International Limited ("Zheng Ye (BVI)")	British Virgin Islands ("BVI") 5 July 2010	Authorised US$50,000 Paid up capital US$10,000	N/A	N/A	100%	100%	Investment holding
正業國際有限公司 Zheng Ye International Company Limited ("Zheng Ye International")	Hong Kong 5 February 1999	Authorised HK$10,000 Paid up capital HK$10,000	100%	100%	100%	100%	Investment holding
誠業(香港)投資實業有限公司 Shing Yip (Hong Kong) Investment Enterprises Limited ("Shing Yip (Hong Kong)")	Hong Kong 6 May 2005	Authorised HK$10,000 Paid up capital HK$10,000	100%	100%	100%	100%	Investment holding
正業包裝(中山)有限公司 Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)")	Peoples' Republic of China ("PRC") 25 August 2003	Registered capital HKD12,000,000 Paid up capital HKD12,000,000	100%	100%	100%	100%	Manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging products
中山永發紙業有限公司 Zhongshan Yong Fa Paper Industry Company Limited ("Yong Fa Paper")	PRC 26 November 2003	Registered capital HKD31,500,000 Paid up capital HKD31,500,000	100%	100%	100%	100%	Manufacturing and sale of paper and paperboard
中山市正業中糖實業有限公司 Zhongshan City Zheng Ye Zhong Tang Shi Ye Company Limited ("Zhong Tang Shi Ye")	PRC 25 December 2000	Note	100%	100%	N/A *(Note)*	N/A *(Note)*	Manufacturing and sale of paper, paperboard and other paper-based products
中山正業聯合包裝有限公司 Zhongshan Zheng Ye Alliance Packaging Company Limited ("Zheng Ye Alliance Packaging")	PRC 21 August 2006	Registered capital RMB10,000,000 Paid up capital RMB10,000,000	100%	100%	100%	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
珠海正業包裝有限公司 Zhuhai Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhuhai)")	PRC 25 August 2005	Registered capital HKD12,000,000 Paid up capital HKD12,000,000	100%	100%	100%	100%	Manufacturing and sale of paper-based packaging products and related packaging service
中山市中糖廢紙回收有限公司 Zhongshan City Zhong Tang Waste Paper Recycling Company Limited ("Zhong Tang Recycling")	PRC 16 February 2001	Registered capital RMB500,000 Paid up capital RMB500,000	100%	100%	100%	100%	Procurement and wholesale business of waste paper
合肥市正業包裝有限公司 He Fei City Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (He Fei)")	PRC 10 September 2010	Registered capital RMB10,000,000 Paid up capital RMB10,000,000	N/A	N/A	100%	100%	Manufacturing of paper-based packaging products and printing of decorative packaging materials
鄭州正業包裝有限公司 Zheng Zhou Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zheng Zhou)")	PRC 27 April 2011	Registered capital RMB10,000,000 Paid up capital RMB10,000,000	N/A	N/A	N/A	100%	Sales of paper-based packaging products

Note: Zhong Tang Shi Ye was merged by Yong Fa Paper and de-registered on 28 October 2010.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried on any business other than the transactions related to the Corporate Reorganisation. No audited financial statements have been prepared for Zheng Ye (BVI) since its date of incorporation as it was incorporated in the BVI which is a jurisdiction where there are no statutory audit requirements.

The statutory financial statements of Zheng Ye International and Shing Yip (Hong Kong) were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and were audited by Union Alpha C.P.A. Limited, a certified public accountants registered in Hong Kong for the three years ended 31 December 2010.

The statutory financial statements of Zheng Ye Packaging (Zhongshan), Yong Fa Paper, and Zheng Ye Alliance Packaging were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 中山同力會計師事務所有限公司 (Zhongshan Tongli Certified Public Accountants Co., Ltd.), certified public accountants registered in the PRC, for each of the three years ended 31 December 2010.

The statutory financial statements of Zhong Tang Shi Ye were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 中山同力會計師事務所有限公司 (Zhongshan Tong Li Certificate Public Accountants Co., Ltd.), certificated public accountants registered in the PRC for the years ended 31 December 2008 and 2009.

The statutory financial statements of Zheng Ye Packaging (Zhuhai) were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 珠海和通泰會計師事務所, certified public accountants registered in the PRC, for each of the three years ended 31 December 2010.

The statutory financial statements of Zhong Tang Recycling were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 中山市超越會計師事務所, certified public accountants registered in the PRC, for the year ended 31 December 2010. No statutory financial statements have been prepared for the two years ended 31 December 2009 as there is no such statutory requirement.

No audited financial statements of Zheng Ye Packaging (He Fei) have been prepared since its date of establishment to 31 December 2010 as there is no such statutory requirement.

For the purpose of this report, the directors of Zheng Ye International have prepared consolidated financial statements of Zheng Ye International, for the Relevant Periods in accordance with HKFRS issued by the HKICPA ("Zheng Ye International Underlying Financial Statements"). We have undertaken an independent audit on the Zheng Ye International Underlying Financial Statements, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Zheng Ye International Underlying Financial Statements, the management accounts of the Company and Zheng Ye (BVI) for the Relevant Periods (collectively referred to as "Underlying Financial Statements"). Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information as set out in this report, has been prepared from the Underlying Financial Statements on the basis set out in note 1 to Section A below. No adjustment was deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the companies comprising the Group who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2010 and of the Group as at 31 December 2008, 2009 and 2010 and of the combined results and combined cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

		Year ended 31 December		
		2008	**2009**	**2010**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	7	836,409	743,351	1,053,302
Cost of sales		(733,530)	(604,273)	(866,267)
Gross profit		102,879	139,078	187,035
Other income	9	5,610	6,528	5,275
Other gains and losses	10	2,208	(894)	13,522
Distribution and selling expenses		(20,130)	(20,504)	(23,970)
Administrative and other expenses		(42,424)	(38,877)	(66,974)
Finance costs	11	(17,860)	(13,062)	(17,567)
Profit before tax	12	30,283	72,269	97,321
Income tax expense	13	(5,817)	(10,005)	(16,211)
Profit and total comprehensive income for the year		24,466	62,264	81,110
Earnings per share				
Basic *(RMB)*	17	0.07	0.17	0.22

Combined Statements of Financial Position

		THE GROUP			THE COMPANY
		At 31 December			At 31 December
		2008	2009	2010	2010
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets					
Property, plant and equipment	18	211,120	223,926	284,070	—
Prepaid lease payments	19	60,811	59,443	58,075	—
Deposits for acquisition of property, plant and equipment		8,863	6,208	7,773	—
Deposit for leasehold land		—	—	6,750	—
		280,794	289,577	356,668	—
Current Assets					
Inventories	20	67,495	87,004	103,801	—
Trade and other receivables	21	299,206	349,193	555,673	—
Amounts due from directors	22	1,555	10,695	—	—
Amounts due from related parties	22	31,752	36,822	—	—
Prepaid lease payments	19	1,368	1,368	1,368	—
Pledged bank deposits	23	54,129	80,399	98,239	—
Bank balances and cash	23	31,944	34,068	31,472	—
		487,449	599,549	790,553	—
Current Liabilities					
Trade and other payables	24	213,876	283,563	396,402	—
Obligations under finance leases	25	218	231	3,528	—
Amounts due to directors	26	13,453	1,656	—	—
Amounts due to related parties	26	21,021	15,231	1,610	—
Bank and other borrowings	27	242,430	257,755	438,089	—
Tax liabilities		778	764	2,552	—
		491,776	559,200	842,181	—
Net Current (Liabilities) Assets		(4,327)	40,349	(51,628)	—
Total Assets Less Current Liabilities		276,467	329,926	305,040	—
Non-current Liabilities					
Obligations under finance leases	25	10,114	9,883	13,347	—
Bank and other borrowings	27	—	4,170	—	—
Deferred tax liabilities	28	578	1,378	1,907	—
		10,692	15,431	15,254	—
		265,775	314,495	289,786	—
Capital and Reserves					
Share/paid-in capital	29	12,610	12,610	17	—
Share premium reserves		253,165	301,885	289,769	—
Total Equity		265,775	314,495	289,786	—

Combined Statements of Changes in Equity

	Share/paid-in capital *RMB'000*	Statutory reserve *RMB'000* *(note i)*	Other reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2008	8,773	38,393	(6,454)	210,936	251,648
Profit and total comprehensive income for the year	—	—	—	24,466	24,466
Transfer to statutory reserve	—	6,745	—	(6,745)	—
Deemed distribution to shareholders under group reorganisation *(note ii)*	(1,263)	—	(8,085)	—	(9,348)
Capital injection	5,100	—	—	—	5,100
Dividends	—	—	—	(6,091)	(6,091)
At 31 December 2008	12,610	45,138	(14,539)	222,566	265,775
Profit and total comprehensive income for the year	—	—	—	62,264	62,264
Transfer to statutory reserve	—	6,754	—	(6,754)	—
Dividends	—	—	—	(13,544)	(13,544)
At 31 December 2009	12,610	51,892	(14,539)	264,532	314,495
Profit and total comprehensive income for the year	—	—	—	81,110	81,110
Transfer to statutory reserve	—	8,732	—	(8,732)	—
Waive of debts owed to a related party	—	—	1,108	—	1,108
Deemed distribution to shareholders under group reorganization *(note iii)*	(12,600)	—	(9,808)	—	(22,408)
Dividends	—	—	—	(84,526)	(84,526)
Capital injection	7	—	—	—	7
At 31 December 2010	17	60,624	(23,239)	252,384	289,786

Notes:

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

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

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

(ii) On 8 December 2007, Zheng Ye International entered into agreement with Zheng Ye Group to acquire a further 10% equity interest in Zheng Ye Packaging (Zhongshan), increasing the aggregate equity interests of Zheng Ye International in Zheng Ye Packaging (Zhongshan) from 90% to 100% with effect from 11 January 2008 respectively at consideration of HK$10,600,000 (equivalent to RMB9,348,000).

Zheng Ye International, Zhong Fa Equipment and Zheng Ye Group are with common shareholders. Thus, the difference between the above consideration and the then registered capital of these entities have been recognised in other reserves as deemed distribution paid to the shareholders.

(iii) On 18 June 2010, Yong Fa Paper entered into an agreement with Zheng Ye Group and the shareholders of Zheng Ye Group to acquire 100% equity interest in Zhong Tang Recycling with effect from 15 July 2010 at a consideration of RMB1,308,000.

On 28 June 2010, Zheng Ye International entered into agreements with Zheng Ye Group to acquire a further 70% equity interest in Zhong Tang Shi Ye, increasing the aggregate equity interests in this entity from 30% to 100% with effect from 9 August 2010 at a consideration of HK$18,713,000 (equivalent to RMB16,000,000).

On 28 July 2010, Zheng Ye International entered into agreements with Zheng Ye Group to acquire a further 51% equity interest in Zheng Ye Alliance Packaging, increasing the aggregate equity interests in this entity from 49% to 100% with effect from 26 August 2010 at a consideration of HK$5,965,000 (equivalent to RMB5,100,000).

Zheng Ye International and Zheng Ye Group are with common shareholders. Thus, the difference between the above consideration and the then registered capital of these entities have been recognised in other reserves as deemed distribution paid to the shareholders.

Combined Statements of Cash Flows

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before tax	30,283	72,269	97,321
Adjustments for:			
Finance costs	17,860	13,062	17,567
Interest income	(2,696)	(2,300)	(1,448)
Depreciation of property, plant and equipment	12,706	17,226	19,374
Impairment losses recognised on trade and other receivables	204	816	1,219
Amortisation of prepaid lease payments	1,368	1,368	1,368
Gain on disposal of property, plant and equipment	(12)	—	(14,046)
Operating cash flows before movements in working capital	59,713	102,441	121,355
Decrease (increase) in inventories	965	(19,509)	(16,797)
Increase in trade and other receivables	(4,180)	(50,803)	(207,699)
(Decrease) increase in trade and other payables	(27,595)	69,687	112,839
Increase in amounts due to related parties	—	—	1,610
Cash generated from operations	28,903	101,816	11,308
PRC Enterprise Income Tax paid	(6,028)	(9,219)	(13,894)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	22,875	92,597	(2,586)
INVESTING ACTIVITIES			
Interest received	2,696	2,300	1,448
Purchase of property, plant and equipment	(46,069)	(20,847)	(75,702)
Proceeds from disposal of property, plant and equipment	23	—	16,438
Deposits paid for acquisition of property, plant and equipment	(8,863)	(6,208)	(7,773)
Deposit paid for leasehold land	—	—	(6,750)
Advance to directors	(1,456)	(12,194)	(2,865)
Repayment from directors	110	3,054	13,560
Advance to related parties	(3,539)	(11,471)	(25,272)
Repayment from related parties	17,882	6,401	62,094
Decrease (increase) in pledged bank deposits	7,274	(26,270)	(17,840)
NET CASH USED IN INVESTING ACTIVITIES	(31,942)	(65,235)	(42,662)

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
FINANCING ACTIVITIES			
Proceeds from capital injection	5,100	—	7
Deemed distribution to shareholders under group reorganisation	(9,348)	—	(22,408)
Interest paid	(18,321)	(13,384)	(17,567)
Dividends paid	(6,091)	(13,544)	(84,526)
Addition in obligation under finance lease	—	—	11,120
Repayment of obligations under finance leases	(205)	(218)	(4,359)
Advance from directors	13,164	11,190	454
Repayment to directors	(16,177)	(22,987)	(2,110)
Advance from related parties	21,361	9,436	15,949
Repayment to related parties	(27,291)	(15,226)	(30,072)
New bank and other borrowings raised	301,326	294,458	607,852
Repayment of bank and other borrowings	(254,056)	(274,963)	(431,688)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	9,462	(25,238)	42,652
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	395	2,124	(2,596)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	31,549	31,944	34,068
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	31,944	34,068	31,472

Notes to the Financial Information

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

(a) Reorganisation

The Company was incorporated in the Bermuda on 18 August 2010, as an exempted company under the Bermuda Companies Act. The addresses of the registered office and the principal place of business of the Company are set out in the Corporate Information section of the Prospectus.

During the Relevant Periods, Zheng Ye International was the holding company of the Group prior to the Reorganisation. In preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company underwent the Reorganisation which included the following principal steps:

(i) Prior to the Reorganisation, Mr. Hu Zheng and Mr. Hu Hanchao held 70% and 30% shareholding of Zheng Ye International respectively. Mr. Hu Zheng and Mr. Hu Hanchao held 19.02% and 5.98% shareholding of Zheng Ye International on trust for Mr. Hu Hancheng respectively. Mr. Hu Hanchao also held 4% and 0.02% shareholding of Zheng Ye International on trust for Mr. Hu Hanxiang and Mr. Hu Zheng.

(ii) Zheng Ye (BVI) was incorporated in the BVI with limited liability on 5 July 2010 and with 50,000 authorised shares of US$1.00 each. On 30 September 2010, an aggregate of 1,000 shares of US$1.00 each were allotted and issued as fully paid at par by Zheng Ye (BVI), as to 510 shares to Gorgeous Rich Development Limited ("Hu Zheng Investment"), 250 shares to Golden Century Assets Limited ("Hu Hancheng Investment"), 200 shares to Leading Innovation Worldwide Corporation ("Hu Hanchao Investment") and 40 shares to Fortune View Services Limited ("Hu Hanxiang Investment").

(iii) On 18 August 2010, the Company was incorporated in Bermuda under the Companies Act as an exempted company with an authorised share capital of HK$200,000 divided into 2,000,000 shares of HK$0.10 each. On 1 September 2010, one share was allotted and issued, nil paid, to Mr. Hu Zheng.

(iv) On 31 January 2011, Zheng Ye (BVI) acquired an aggregate of 100 shares of par value of HK$100 each in Zheng Ye International as to 70 shares from Mr. Hu Zheng and the remaining 30 shares from Mr. Hu Hanchao respectively, representing the entire issued share capital of Zheng Ye International, in consideration of and in exchange for which Zheng Ye (BVI) allotted and issued, credited as fully paid, an aggregate of 9,000 shares of US$1.00 each in its capital, at the direction of Mr. Hu Zheng and Mr. Hu Hanchao as to 4,590 shares to Hu Zheng Investment, 2,250 shares to Hu Hancheng Investment, 1,800 shares to Hu Hanchao Investment and 360 shares to Hu Hanxiang Investment.

(v) On 4 March 2011, the Company acquired from Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment an aggregate of 10,000 shares of US$1.00 each in the share capital of Zheng Ye (BVI), being its entire issued share capital, in consideration of an in exchange for which the Company, (i) allotted and issued, credited as fully paid, an aggregate of 1,999,999 shares, as to 1,019,999 shares to Hu Zheng Investment, 500,000 shares to Hu Hancheng Investment, 400,000 shares to Hu Hanchao Investment and 80,000 shares to Hu Hanxiang Investment; and (ii) credited as fully paid at par one nil paid share then held by Mr. Hu Zheng. On the same day, Mr. Hu Zheng transferred his one share to Hu Zheng Investment at nil consideration.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly the Financial Information of the Group has been prepared by applying the principles of merger accounting, as if the group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where this is a shorter period.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

(b) Going concern

In preparing the financial statements underlying the Financial Information, the directors of the Company have given careful considerations to the future liquidity of the Group in light of the fact that as at 31 December 2010, its current liabilities exceeded its current assets by approximately RMB51,628,000. Taking into account of the internally generated funds, the available bank balances and cash on hand and the available bank facilities, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis. Accordingly, the Financial Information has been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) — Int") (hereinafter collectively referred to as the "New HKFRSs") which are effective for the Group's financial year beginning on 1 January 2010. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all these New HKFRSs throughout the Relevant Periods except that the Group has adopted HKFRS 3 (Revised 2008) and HKAS 27 (Revised 2008) for the year beginning on 1 January 2010.

At the date of this report, the HKICPA has issued the following Standards, Amendments and Interpretations that are not yet effective. The Group has not early applied the following new and revised Standards, Amendments or Interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosure — Transfer of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

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

The directors of the Company anticipate that the application of the new and revised Standards, Amendments or Interpretations will have no material impact on results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the accounting policies below which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The policies have been consistently applied throughout the Relevant Periods.

Basis of combination

The combined financial information incorporates the financial information of the companies now comprising the Group.

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

Business combination under common control

The Financial Information incorporates the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

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

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

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 title has passed.

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 of 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.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Sales and lease back under finance lease

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

Impairment losses

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

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

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

Financial liabilities and equity instruments

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant 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 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Borrowing costs

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

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

Inventories

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

Intangible assets

Research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Taxation

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

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the combined statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, or as a deduction in related expense since the Group might not have incurred the expense if the grant had not been available, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes recognised in profit or loss when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the management has made various estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

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

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at the three years ended 31 December 2010, the carrying amounts of trade receivables are RMB156,202,000, RMB198,835,000 and RMB289,559,000 respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of debts, which includes the amounts due to directors and related parties, and bank and other borrowings as disclosed in notes 26 and 27 respectively, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising share/paid-in capital and reserves.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, repayment of amounts due to directors, issuance of new shares as well as the raising of new debts.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Financial assets			
Loans and receivables (including cash and cash equivalent)	416,141	508,107	679,118
Financial liabilities (excluded obligations under finance leases)			
Amortised cost	476,045	541,065	812,395

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from directors and related parties, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to directors and related parties, and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The risk arising from the Group's financial instruments are mainly market risk, credit risk and liquidity risk. The directors review policies for managing each of these risks and they are summarised below.

Market risk

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

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

Interest rate risk management

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

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

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

Interest rate sensitivity

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

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

At the end of the reporting period, if interest rates had been increased/decreased by 50 basis points in respect of variable rate bank and other borrowings and all other variables were held constant, the Group's profit would decrease/increase by approximately RMB165,000, RMB278,000 and RMB642,000 for the three years ended 31 December 2010 respectively.

Foreign currency risk management

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

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

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

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Assets			
USD	3,442	2,802	2,729
HKD	2,789	10,985	3,706

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Liabilities			
USD	3,219	22,551	23,779
HKD	8,985	8,504	13,295

Foreign currency sensitivity analysis

The Group mainly exposes to foreign exchange fluctuation of the currency of United States ("USD") and the currency of Hong Kong ("HKD") against RMB.

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

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
USD			
(Loss) profit before tax for the year	(22)	1,975	2,105
HKD			
Profit (loss) before tax for the year	620	(248)	959

Credit risk

As at 31 December 2008, 2009 and 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the combined statements of financial position.

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

The credit risk on amounts due from directors and related parties are insignificant after considering the financial strength of these related entities.

The Group has concentration of credit risk as 32%, 47% and 38% of total trade receivables represented amounts due from the Group's largest three trade debtors for the three years ended 31 December 2010 respectively. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

In addition, the Group is exposed to concentration of credit risk for its amounts due from related parties. However, as the counterparties are group companies with common shareholders, the management of the Group considers the Group's credit risk is not significant.

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

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

Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2010, the Group had net current liabilities of RMB51,628,000 which included bank borrowings of RMB433,919,000. The management has evaluated all the relevant facts available to them and is of the opinion that there are good track records and relationship with banks which would enhance the Group's ability on renewing the bank loans upon expiry and securing adequate banking facilities within the limit approved by banks. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As at 31 December 2010, the Group has available unutilised banking facilities of approximately RMB164 million.

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

	Weighted average interest rate	6 months or less	6 months to 1 year	1–2 years	2–5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008								
Trade and other payables	N/A	199,141	—	—	—	—	199,141	199,141
Obligations under finance leases	6.12%	—	850	850	2,550	14,133	18,383	10,332
Amounts due to directors	N/A	13,453	—	—	—	—	13,453	13,453
Amounts due to related parties	N/A	21,021	—	—	—	—	21,021	21,021
Fixed interest rate bank and other borrowings	6.59%	155,527	58,380	—	—	—	213,907	209,331
Variable interest rate bank and other borrowings	7.66%	25,108	9,096	—	—	—	34,204	33,099
		414,250	68,326	850	2,550	14,133	500,109	486,377
At 31 December 2009								
Trade and other payables	N/A	260,290	1,963	—	—	—	262,253	262,253
Obligations under finance leases	6.12%	—	850	850	2,550	13,283	17,533	10,114
Amounts due to directors	N/A	1,656	—	—	—	—	1,656	1,656
Amounts due to related parties	N/A	15,231	—	—	—	—	15,231	15,231
Fixed interest rate bank and other borrowings	4.05%	155,524	49,780	4,306	—	—	209,610	206,375
Variable interest rate bank and other borrowings	5.31%	50,790	6,010	—	—	—	56,800	55,550
		483,491	58,603	5,156	2,550	13,283	563,083	551,179
At 31 December 2010								
Trade and other payables	N/A	372,346	350	—	—	—	372,696	372,696
Obligations under finance leases	8.66%	1,980	2,830	4,810	2,550	12,433	24,603	16,875
Amounts due to related parties	N/A	1,610	—	—	—	—	1,610	1,610
Fixed interest rate bank and other borrowings	4.93%	280,697	30,294	—	—	—	310,991	309,739
Variable interest rate bank and other borrowings	5.61%	47,450	85,555	—	—	—	133,005	128,350
		704,083	119,029	4,810	2,550	12,433	842,905	829,270

c. Fair value

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

The management of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE

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

8. SEGMENT INFORMATION

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

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

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

- Paper-based packaging: this segment produces and sells paper-based packaging products.
- Corrugated medium paper: this segment produces and sells corrugated medium paper.

(a) Segment results

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

	Year ended 31 December 2008		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	371,571	464,838	836,409
Inter-segment sales	—	66,862	66,862
Total	371,571	531,700	903,271
SEGMENT RESULT	28,616	(191)	28,425
Unallocated corporate income, net			1,858
Profit before tax			30,283

	Year ended 31 December 2009		
	Paper-based packaging *RMB'000*	**Corrugated medium paper** *RMB'000*	**Total** *RMB'000*
REVENUE			
External sales	388,497	354,854	743,351
Inter-segment sales	—	102,244	102,244
Total	388,497	457,098	845,595
SEGMENT RESULT	34,682	37,483	72,165
Unallocated corporate income, net			104
Profit before tax			72,269

	Year ended 31 December 2010		
	Paper-based packaging	Corrugated medium paper	Total
	RMB'000	*RMB'000*	*RMB'000*
REVENUE			
External sales	565,942	487,360	1,053,302
Inter-segment sales	—	113,411	113,411
Total	565,942	600,771	1,166,713
SEGMENT RESULT	39,466	69,917	109,383
Unallocated corporate expenses, net			(12,062)
Profit before tax			97,321

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

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

Segment profit represented the profit earned by each segment without allocation of legal and professional fee, bank interest income and other corporate income and expenses.

(b) Geographic information

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

(c) Information about major customers

Revenue from customer in each of the reporting period over the Relevant Periods, individually contributing over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Customer A	102,997	106,419	203,252
Customer B *(Note)*	N/A	81,057	106,673

Note: Revenue from Customer B contributed less than 10% of the total revenue of the Group for the year ended 31 December 2008.

(d) Segment assets and liabilities

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

9. OTHER INCOME

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Interest income	2,696	2,300	1,448
Management fee income from a related party *(note 34)*	420	959	597
Sales of electricity and steam	1,394	2,666	—
Sales of scrap materials	—	—	779
Government grants	270	428	2,211
Sundry income	830	175	240
Total	5,610	6,528	5,275

10. OTHER GAINS AND LOSSES

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Exchange (loss) gain, net	2,400	(78)	695
Impairment losses recognised on trade and other receivables	(204)	(816)	(1,219)
Gain on disposal of property, plant and equipment	12	—	14,046
	2,208	(894)	13,522

11. FINANCE COSTS

	Year ended 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Interest on:			
Bank and other borrowings wholly repayable within five years	17,676	12,752	15,995
Finance leases	645	632	1,572
Total borrowing costs	18,321	13,384	17,567
Less: Amounts capitalised	(461)	(322)	—
	17,860	13,062	17,567

12. PROFIT BEFORE TAX

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax has been arrived at after charging (crediting):			
Auditor's remuneration	89	110	1,148
Depreciation of property, plant and equipment *(note)*	12,706	17,226	19,374
Amortisation of prepaid lease payments	1,368	1,368	1,368
Foreign exchange (gain) loss, net	(2,400)	78	(695)
Impairment losses recognised on trade and other receivables	204	816	1,219
Listing expenses	—	—	9,986
Gain on disposal of property, plant and equipment	(12)	—	(14,046)
Operating lease rental in respect of			
— land and buildings	3,711	3,723	5,248
— plant and equipment	8,328	7,286	3,373
Research and development costs	8,615	8,393	12,252
Gross rental income	(954)	(20)	—
Less: direct expenses that generated rental income	361	1	—
Staff costs			
— directors' emoluments	240	701	1,176
— salaries and other benefits costs	67,286	68,236	97,941
— retirement benefits scheme contribution	3,042	2,856	3,473

Note: Depreciation with the amounts of RMB2,194,000 and RMB1,835,000 is in respect of research and development costs for the year ended 31 December 2009 and 2010 respectively.

13. INCOME TAX EXPENSE

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
The charge comprises:			
Current tax			
PRC Enterprise Income Tax	5,302	9,205	15,682
Deferred tax *(note 28)*			
Current year	515	800	529
	5,817	10,005	16,211

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Provision for the PRC Enterprise Income Tax ("PRC EIT") for the Relevant Periods was made based on the estimated assessable profits calculated in accordance with the relevant applicable income tax laws.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations 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.

According to Article Eight of *The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* which became effective from 9 April 1991 and expired since 1 January 2008, Foreign Investment and Foreign Enterprises for production were approved to enjoy 2-year income tax exemption commencing from their first profit-making year of operations, and thereafter to a 50% relief for the following three years ("Certain Conditions 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% ("Certain Conditions 2").

According to Article Seven of *The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises*, 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% ("Certain Conditions 3").

According to Certain Conditions 3, Zheng Ye Packaging (Zhongshan) was levied at the reduced rate of 24%. Further, according to document (Zhongshanguoshuihan [2004] 326) issued by Zhongshan State Administration of Taxation, Zheng Ye Packaging (Zhongshan) is eligible to Certain Conditions 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 Certain Conditions 2.

According to Certain Conditions 3, Yong Fa Paper was levied at the reduced rate of 24%. Further, according to document (Zhongshanguoshuihan [2005] 358) issued by Zhongshan State Administration of Taxation, Yong Fa Paper is eligible to Certain Conditions 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 and 2010 based on Certain Conditions 2.

According to document (Zhongjijianzi [2007] 132) issued by Zhongshan State Administration of Taxation, and Certain Conditions 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) issued by Huangpu District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 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) issued by Doumen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 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.

The income tax expense for the year can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	30,283	72,269	97,321
PRC Enterprise Income Tax at 25%	7,571	18,067	24,330
Tax effect of income not taxable for tax purpose	(310)	(45)	—
Tax effect of income tax credit granted to subsidiaries for research and development costs	—	(838)	—
Tax effect of expenses not deductible for tax purpose *(Note 1)*	5,358	1,178	3,393
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	(6,915)	(8,563)	(11,679)
Tax effect of tax losses not recognised	4	19	339
Withholding tax on retained profits to be distributed *(Note 2)*	80	101	—
Others	29	86	(172)
Income tax expense for the year	5,817	10,005	16,211

Note 1: During year ended 31 December 2008, one of the subsidiaries had wrongly adjusted inventory cost by approximately RMB18,400,000 on the PRC statutory financial statements. As a result, the taxable profit was overstated by approximately RMB18,400,000. An application of deducting the future taxable profit in this regard has been filed to the relevant tax bureau. However, as the result is uncertain, the Directors consider them as expenses not deductible for tax purpose.

Other than the effect of abovementioned matter in 2008, except for the tax effect on the non-deductible listing fee of approximately RMB9,986,000 for the year ended 31 December 2010, the remaining tax effect of expenses not deductible for the Relevant Periods is mainly the non-deductible welfare expense.

Note 2: In accordance to PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to "non-resident" investors who do not have an establishment or place of business in the PRC. The amount represents the withholding income tax provided on the profits arisen during the year ended 31 December 2008 and 2009 of Zhong Tang Shi Ye, which are available for distribution to approximately RMB803,000 and RMB1,011,000 respectively.

During the year ended 31 December 2010, Zhong Tang Shi Ye declared and paid dividend to Zheng Ye International on the profits arisen during the year ended 31 December 2008 and 2009.

No withholding tax on profits arisen for the year ended 31 December 2010 have been recognised because the Group is in a position to control the distribution of profits and the directors considered no dividend will be declared to "non-resident" investors in the foreseeable future.

14. DIRECTORS' EMOLUMENTS

Details of the emoluments paid and payable to the directors of the Company by the Group for the Relevant Periods are as follows:

	Salary	Bonus	Retirement benefits scheme contribution	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2008				
Hu Zheng	120	—	—	120
Hu Hanchao	120	—	—	120
Hu Hancheng	—	—	—	—
Hu Hanxiang	—	—	—	—
Wu Youjun	—	—	—	—
Zhu Hongwei	—	—	—	—
Chung, Kwok Mo John	—	—	—	—
	240	—	—	240
For the year ended 31 December 2009				
Hu Zheng	210	—	—	210
Hu Hanchao	210	—	—	210
Hu Hancheng	200	—	—	200
Hu Hanxiang	81	—	—	81
Wu Youjun	—	—	—	—
Zhu Hongwei	—	—	—	—
Chung, Kwok Mo John	—	—	—	—
	701	—	—	701
For the year ended 31 December 2010				
Hu Zheng	360	—	—	360
Hu Hanchao	360	—	—	360
Hu Hancheng	360	—	—	360
Hu Hanxiang	96	—	—	96
Wu Youjun	—	—	—	—
Zhu Hongwei	—	—	—	—
Chung, Kwok Mo John	—	—	—	—
	1,176	—	—	1,176

None of the directors waived any emoluments in the Relevant Periods.

15. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included one, three and three directors of the Company for the year ended 31 December 2008, 31 December 2009 and 31 December 2010 respectively, details of whose emoluments are included above. The emoluments of the remaining highest paid individuals during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Salary	493	272	420
Bonus	—	—	—
Retirement benefits scheme contribution	29	15	8
	522	287	428

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the Relevant Periods.

16. DIVIDENDS

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Dividends recognised as distribution during the year	6,091	13,544	84,526

During the three years ended 31 December 2010, Zheng Ye International declared dividend of RMB6,091,000, RMB13,544,000 and RMB62,311,000 respectively to its then shareholders. The amounts were settled during the year.

During the year ended 31 December 2010, dividend of RMB22,215,000 has been paid by Zhong Tang Shi Ye to Zheng Ye Group.

The rate of distribution and the number of shares ranking for distribution are not presented as such information is not meaningful for the purpose of this report.

17. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods is based on the combined profit attributable to the owners of the Company for each reporting period during the Relevant Periods and on the 375,000,000 shares in issue during these periods on the assumption that the Group Reorganisation and the capitalisation issue as detailed in the paragraph headed "Further information about our Company and our subsidiaries — 3. Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011" in Appendix V to the Prospectus have been effective on 1 January 2008.

No diluted earnings per share has been presented for the Relevant Periods as there is no outstanding potential ordinary share at the end of each reporting period.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Plant and machinery *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST						
At 1 January 2008	33,581	2,645	3,328	78,689	99,345	217,588
Additions	3,645	822	1,098	4,728	45,972	56,265
Disposals	—	—	—	(241)	—	(241)
Transfer from construction in progress	49,102	47	—	93,130	(142,279)	—
At 31 December 2008	86,328	3,514	4,426	176,306	3,038	273,612
Additions	537	1,038	1,338	3,945	23,174	30,032
Disposals	—	—	—	(40)	—	(40)
Transfer from construction in progress	657	—	—	17,755	(18,412)	—
At 31 December 2009	87,522	4,552	5,764	197,966	7,800	303,604
Additions	12,422	836	623	25,049	42,980	81,910
Disposals	(4,499)	—	—	(8,312)	—	(12,811)
Transfer from construction in progress	4,587	—	—	31,655	(36,242)	—
At 31 December 2010	100,032	5,388	6,387	246,358	14,538	372,703
DEPRECIATION						
At 1 January 2008	(17,573)	(623)	(876)	(30,944)	—	(50,016)
Provided for the year	(3,734)	(489)	(685)	(7,798)	—	(12,706)
Eliminated on disposals	—	—	—	230	—	230
At 31 December 2008	(21,307)	(1,112)	(1,561)	(38,512)	—	(62,492)
Provided for the year	(4,509)	(629)	(936)	(11,152)	—	(17,226)
Eliminated on disposals	—	—	—	40	—	40
At 31 December 2009	(25,816)	(1,741)	(2,497)	(49,624)	—	(79,678)
Provided for the year	(4,862)	(730)	(898)	(12,884)	—	(19,374)
Eliminated on disposals	2,567	—	—	7,852	—	10,419
At 31 December 2010	28,111	2,471	3,395	54,656	—	88,633
CARRYING VALUES						
At 31 December 2008	65,021	2,402	2,865	137,794	3,038	211,120
At 31 December 2009	61,706	2,811	3,267	148,342	7,800	223,926
At 31 December 2010	71,921	2,917	2,992	191,702	14,538	284,070

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

Buildings	4.5%–18%
Furniture and fixtures	11.25%–18%
Motor vehicles	18%
Plant and machinery	4.5%–18%

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

Plant and machinery with carrying value of RMB10,741,000, RMB10,242,000 and RMB9,391,000 as at the three years ended 31 December 2010 respectively, are in respect of assets held under finance lease.

Plant and machinery with carrying value of RMB629,000 as at 31 December 2010 are in respect of assets held under a sales and lease back agreement.

Buildings with carrying value of RMB8,009,000 and RMB6,566,000 as at 31 December 2008 and 2009 respectively are without obtaining property certificates. The Group obtained the property certificates on 26 September 2010.

Details of property, plant and equipment pledged are set out in note 30.

19. PREPAID LEASE PAYMENTS

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Leasehold land in the PRC Medium term lease	62,179	60,811	59,443
Analysed for reporting purposes as:			
Non-current asset	60,811	59,443	58,075
Current asset	1,368	1,368	1,368
	62,179	60,811	59,443

Details of land use rights pledged are set out in note 30.

20. INVENTORIES

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Raw material	45,380	64,663	73,120
Work in progress	2,311	4,802	3,818
Finished goods	19,804	17,539	26,863
	67,495	87,004	103,801

Details of inventories pledged are set out in note 30.

21. TRADE AND OTHER RECEIVABLES

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	156,406	199,855	289,559
Less: allowance for doubtful debts	(204)	(1,020)	—
	156,202	198,835	289,559
Advances to suppliers	561	1,365	2,758
Less: allowance for doubtful debts	—	—	(1,219)
	561	1,365	1,539
Bills receivables	138,121	129,825	240,134
Prepayment	1,884	1,705	4,727
Other receivables	2,438	17,463	19,714
	142,443	148,993	264,575
Total trade and other receivables	299,206	349,193	555,673

The Group allows a credit period of 30 to 120 days to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
0–60 days	143,775	174,618	245,631
61–90 days	7,810	12,953	26,785
91–180 days	4,428	11,083	16,969
Over 180 days	393	1,201	174
	156,406	199,855	289,559

The carrying amounts of the Group's bills receivables is aged within 180 days.

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB18,568,000, RMB6,474,000 and RMB19,024,000 which are past due as at 31 December 2008, 2009 and 2010 respectively for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Overdue by:			
0–30 days	13,166	4,651	11,802
31–60 days	3,941	1,216	6,796
61–90 days	1,002	427	252
Over 90 days	459	180	174
Total	18,568	6,474	19,024

Movement in the allowance for doubtful debts

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	—	204	1,020
Impairment losses recognised on trade and other receivables	204	816	1,219
Amounts written off as uncollectible	—	—	(1,020)
At 31 December	204	1,020	1,219

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB204,000, RMB1,020,000 and RMB1,219,000 as at 31 December 2008, 2009 and 2010 respectively, which are either been placed under liquidation or in severe financial difficulties in repaying the outstanding balances. The Group does not hold any collateral over these balances.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Details of trade receivable and bills receivable pledged as set out in note 30.

22. AMOUNTS DUE FROM DIRECTORS/RELATED PARTIES

Amounts due from directors/related parties which are non-trade related, disclosed pursuant to section 161B of the Companies Ordinance are as follows:

	Terms	At 1 January 2008	At 31 December 2008	2009	2010	Maximum balances outstanding Year ended 31 December 2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from directors								
Hu Hanxiang	Unsecured, interest-free and repayable on demand	—	—	1,500	—	—	3,500	1,500
Hu Hangcheng	Unsecured, interest-free and repayable on demand	209	1,555	1,825	—	1,665	2,879	1,825
Hu Zheng	Unsecured, interest-free and repayable on demand	—	—	6,586	—	—	6,586	8,486
Hu Hanchao	Unsecured, interest-free and repayable on demand	—	—	784	—	—	784	1,749
		209	1,555	10,695	—			
Amounts due from related parties								
Zhong Fa Equipment	Unsecured, interest-free and repayable on demand	—	—	129	—	—	129	129
Zheng Ye Group	Unsecured, interest-free and repayable on demand	46,095	31,752	36,693	—	53,256	36,848	36,693
		46,095	31,752	36,822	—			

Certain directors of the Company are also directors of the related parties.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates with average market rates of 0.01% to 0.36%, 0.01% to 0.36% and 0.01% to 0.36% per annum, for the years ended 31 December 2008, 2009 and 2010 respectively. The pledged deposits carrying interest rates which range from 1.71% to 1.98%, 1.71% to 1.98% and 1.71% to 1.98% per annum, for the years ended 31 December 2008, 2009 and 2010 respectively.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB54,129,000, RMB80,399,000 and RMB98,239,000 as at 31 December 2008, 2009 and 2010 respectively, have been pledged to bills payable repayable within three to six months and are therefore classified as current assets.

24. TRADE AND OTHER PAYABLES

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	135,579	157,277	260,905
Bills payable — secured	40,695	83,549	76,628
Other tax payables *(Note)*	14,735	21,310	23,706
Payroll and welfare payables	10,803	13,657	16,249
Rental deposits	4,000	—	—
Listing expenses	—	—	5,054
Construction payables	4,255	4,657	6,838
Others	3,809	3,113	7,022
	213,876	283,563	396,402

Note: Included in other tax payables with the amounts of RMB14,482,000, RMB20,775,000 and RMB22,868,000 as at 31 December 2008, 2009 and 2010 are in respect of provision of Value-added Tax.

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

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
0–60 days	79,242	113,493	220,127
61–90 days	12,882	15,504	17,733
91–180 days	33,209	23,934	21,687
Over 180 days	10,246	4,346	1,358
	135,579	157,277	260,905

The carrying amounts of the Group's bills payable is repayable within 180 days.

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

25. OBLIGATIONS UNDER FINANCE LEASES

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purposes as:			
Current liabilities	218	231	3,528
Non-current liabilities	10,114	9,883	13,347
	10,332	10,114	16,875

The Group has leased certain of its plant and machinery under finance leases for term of 20 years. Interest rates underlying all obligations under finance leases are fixed at an average 6.12% per annum at respective contract dates for the years ended 31 December 2008, 2009 and at an average 8.66% per annum for the year ended 31 December 2010 respectively.

The Group leased certain of its manufacturing equipment under a sales and lease back agreement in 2009. The lease term was 3 years and the ownership of the equipment would be transferred to the Group by the end of the lease term without consideration. The net proceeds of RMB11,120,000 was received and credited to obligations under finance leases in 2010. The effective interest rates underlying the obligations under finance lease are at 12.26% per annum. The carrying amount of the equipment under the sales and leaseback agreement was disclosed in note 18.

	Minimum lease payments			Present value of minimum lease payments		
	At 31 December			At 31 December		
	2008	2009	2010	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts payable under finance lease						
Within one year	850	850	4,810	218	231	3,528
In more than one year but not more than five years	3,400	3,400	7,360	1,012	1,074	4,849
More than five years	14,133	13,283	12,433	9,102	8,809	8,498
	18,383	17,533	24,603	10,332	10,114	16,875
Less: future finance charges	(8,051)	(7,419)	(7,728)	N/A	N/A	N/A
Present value of lease obligations	10,332	10,114	16,875	10,332	10,114	16,875
Less: Amounts due for settlement within 12 months (shown under current liabilities)				(218)	(231)	(3,528)
Amounts due for settlement after 12 months				10,114	9,883	13,347

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

26. AMOUNTS DUE TO DIRECTORS/RELATED PARTIES

The amounts as at 31 December 2008 and 2009 are non-trade related, unsecured, interest-free and repayable on demand.

The amounts as at 31 December 2010 of RMB1,610,000 represent the rental payable.

27. BANK AND OTHER BORROWINGS

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans, secured	240,100	251,934	433,919
Other loan, secured	2,330	9,991	4,170
	242,430	261,925	438,089
Carrying amount repayable:			
On demand or within one year	242,430	257,755	438,089
More than one year, but not exceeding two years	—	4,170	—
	242,430	261,925	438,089
Less: Amounts due within one year shown under current liabilities	(242,430)	(257,755)	(438,089)
	—	4,170	—

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

	At 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
RMB	241,998	251,751	426,890
USD	432	10,174	11,199
	242,430	261,925	438,089

Bank and other borrowings as at the end of the reporting period were secured by the pledge of assets and guarantees as set out in notes 30 and 34.

Other loan represents a borrowing from a financial institute and secured by the Group's certain equipment and machinery.

Certain borrowings are arranged at variable rate based on the benchmark interest rate quoted by the People's Bank of China ("Benchmark Rate"), which exposing the Group to cash flow interest rate risk. The carrying amounts of the Group's borrowings and respective interest rates are as follows:

	Interest rate	Carrying amounts *RMB'000*
At 31 December 2008		
Fixed rate borrowings	4.94% to 8.96% per annum	209,331
Variable rate borrowings	Benchmark Rate with 5% mark-up to Benchmark Rate with 25% mark-up per annum	33,099
		242,430
At 31 December 2009		
Fixed rate borrowings	1.25% to 8.67% per annum	206,375
Variable rate borrowings	Benchmark Rate per annum	55,550
		261,925
At 31 December 2010		
Fixed rate borrowings	1.54% to 6% per annum	309,739
Variable rate borrowings	Benchmark Rate per annum	128,350
		438,089

28. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and movements thereon during the Relevant Periods:

	Depreciation differences *RMB'000*	Undistributable profit of a subsidiary *RMB'000*	Total *RMB'000*
At 1 January 2008	63	—	63
Charge for the year	435	80	515
At 31 December 2008	498	80	578
Charge for the year	699	101	800
At 31 December 2009	1,197	181	1,378
Charge(credit) for the year	710	(181)	529
At 31 December 2010	1,907	—	1,907

Under the EIT law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of certain subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB31,555,000, RMB64,829,000 and RMB144,751,000 at 31 December 2008, 2009 and 2010 respectively. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. Dividends declared during the Relevant Periods by these subsidiaries were for retained profits earned before 1 January 2008.

29. SHARE/PAID-IN CAPITAL

For the purpose of the preparation of the Financial Information, the share/paid-in capital in the combined statement of financial position as at 1 January 2008 represented the aggregate of issued share capital of Zheng Ye International comprising 100 shares of HK$100 each (equivalent to RMB10,000), paid-up capital of Zhong Tang Recycling of RMB500,000, 10% of paid-up capital of Zheng Ye Packaging (Zhongshan) amounting to HK$1,200,000 (equivalent to RMB1,262,590) and 70% of paid-up capital of Zhong Tang Shi Ye amounting to RMB7,000,000.

In 2008, Zheng Ye Group transferred all its 10% equity interest in Zheng Ye Packaging (Zhongshan) to Zheng Ye International at a consideration of HK$10,600,000 (equivalent to RMB9,348,140). In addition, Zheng Ye Group has paid the registered capital of Zheng Ye Alliance Packaging of RMB5,100,000.

The share/paid-in capital in the combined statement of financial position as at 31 December 2008, 31 December 2009 represented the aggregate of issued share capital of Zheng Ye International comprising 100 shares of HK$100 each (equivalent to RMB10,000), paid-up capital of Zhong Tang Recycling of RMB500,000, 70% of paid-up capital of Zhong Tang Shi Ye amounting to RMB7,000,000 and 51% of paid-up capital of Zheng Ye Alliance Packaging amounting to RMB5,100,000.

In 2010, Zheng Ye Group transferred all its 70% and 51% equity interest in Zhong Tang Shi Ye and Zheng Ye Alliance Packaging to Zheng Ye International at a consideration of HK$18,713,000 (equivalent to RMB16,000,000) and HK$5,965,000 (equivalent to RMB5,100,000) respectively.

In 2010, Zheng Ye Group and the shareholders of Zheng Ye Group transferred its 100% equity interest in Zhong Tang Recycling to Yong Fa Paper at a consideration of RMB1,308,000.

As of the date of incorporation of the Company, the authorised share capital was HK$200,000 divided into 2,000,000 shares having a per value of HK$0.10 each. On 1 September 2010, one share was allotted and issued, nil paid, to a shareholder.

On 30 September 2010, an aggregate of 1,000 shares of US$1 each were allotted and issued as fully paid at par to Zheng Ye (BVI).

The paid-in capital in the combined statement of financial position as at 31 December 2010 represented the aggregation of issued share capital of Zheng Ye International comprising 100 shares of HK$100 each (equivalent to RMB10,000) and paid up capital of Zheng Ye (BVI) comprising 1,000 shares of US$1 each (equivalent to approximately RMB7,000).

30. PLEDGE OF ASSETS

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

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Buildings and construction in progress	42,568	41,443	40,583
Plant and machinery	5,459	16,270	132,552
Land use right	61,632	60,811	59,443
Trade receivables	—	—	127,371
Bills receivables	18,000	—	—
Pledged bank deposits	54,129	80,399	98,239
Inventories	42,744	47,229	35,397
	224,532	246,152	493,585

31. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating leases in respect of leased properties are as follows:

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Within one year	181	432	7,848
In the second to fifth year inclusive	634	968	9,792
After five years	5,478	5,320	5,161
	6,293	6,720	22,801

Operating lease payments represent rentals payable by the Group for certain of its office premises and plant and equipment. Leases are negotiated for an average term of one to five years. Rentals are fixed at the date of signing of lease agreements.

32. CAPITAL COMMITMENTS

	At 31 December		
	2008	2009	2010
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the combined financial statements	19,730	19,206	52,013

33. RETIREMENT BENEFITS SCHEMES

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

The Group made contributions to the retirement benefits schemes of RMB3,042,000, RMB2,856,000 and RMB3,473,000 for the years ended 31 December 2008, 2009 and 2010 respectively.

34. RELATED PARTIES TRANSACTIONS

Apart from the balances with related parties set out in the combined statements of financial position and respective notes, the Group entered into the following transactions with related parties:

(a) Related parties transactions during the Relevant Periods

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Rental expenses of equipments			
— Zhong Fa Equipment	5,862	5,217	2,451
— Zheng Ye Group	1,668	1,157	425
	7,530	6,374	2,876
Rental expenses of property			
— Zhong Fa Equipment	600	600	300
— Zheng Ye Group	3,552	3,552	3,669
	4,152	4,152	3,969
Rental expenses of vehicles			
— Zhong Fa Equipment	198	198	198
Management fee income			
— Zheng Ye Group	420	959	597
Purchase of property, plant and equipment			
— Zhong Fa Equipment	—	—	23,469
— Zheng Ye Group	—	—	4,361
	—	—	27,830

In the opinion of the directors of the Company, the lease of property from Zheng Ye Group and the lease of vehicles from Zhong Fa Equipment which were conducted on an arm's length basis, will continue after the listing of the shares of the Company on the Stock Exchange (the "Listing"), while the other related parties transactions which were conducted in the normal course of business and based on the terms mutually determined and agreed by the respective parties will not continue after the Listing.

Management fee income represented the administrative service provided by the Group to Zheng Ye Group.

(b) A related company has mortgaged properties and equipment to secure borrowings made to the Group amounting to RMB79,200,000, RMB58,200,000 and RMB10,000,000 as at 31 December 2008, 2009 and 2010 respectively.

(c) A related company has provided corporate guarantee amounting to RMB56,099,000, RMB58,200,000 and RMB10,000,000 in favour of banks for banking facilities granted to the Group as at 31 December 2008, 2009 and 2010 respectively.

(d) Certain directors have provided personal guarantee amounting to RMB112,098,000, RMB91,727,000 and RMB114,144,000 in favour of banks for banking facilities granted to the Group as at 31 December 2008, 2009 and 2010 respectively.

(e) The remuneration paid and payable to key management of the Company who are also the directors of the Company for the Relevant Periods is set out in note 14.

(f) Each of the relevant banks has given its consent in principle to release all these guarantees and charges upon the Listing.

B. DIRECTORS' REMUNERATION

Under the arrangement currently in force, the aggregate amount of remunerations of the directors of the Company payable for the year ending 31 December 2011 is approximately RMB5,812,000.

C. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31 December 2010:

(a) Subsequent to 31 December 2010, in preparing for the Listing, the companies now comprising the Group underwent the Corporate Reorganisation to rationalise the group structure. As a result of the Corporate Reorganisation, the Company became the holding company of the Group on 4 March 2011. Details of the Corporate Reorganisation and other changes are set out in the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 31 December 2010.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong