ZHENGYE
INTERNATIONAL

ANNUAL REPORT 年報 2012

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
INCORPORATED IN BERMUDA WITH LIMITED LIABILITY
STOCK CODE:3363

CONTENTS

ZHENGYE INTERNATIONAL

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Hu Zheng (Chairman)
Mr. Hu Hancheng
(Vice-Chairman and Chief Executive Officer)
Mr. Hu Hanchao
(Vice-Chairman and Chief Operating Officer)
Mr. Chen Weixin
Mr. Yin Wenxin

Non-executive Director
Mr. Hu Hanxiang

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

COMPANY SECRETARY
Ms. Chan Yin Wah

AUDIT COMMITTEE
Mr. Chung Kwok Mo John (Chairman)
Mr. Wu Youjun
Mr. Zhu Hongwei

REMUNERATION COMMITTEE
Mr. Chung Kwok Mo John (Chairman)
Mr. Wu Youjun
Mr. Zhu Hongwei
Mr. Hu Zheng

NOMINATION COMMITTEE
Mr. Hu Zheng (Chairman)
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Mr. Zhu Hongwei

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AUTHORIZED REPRESENTATIVE
Mr. Hu Zheng
Ms. Chan Yin Wah

LEGAL ADVISER
As to Hong Kong law
Chiu & Partners

As to Bermuda law
Conyers Dill & Pearman

AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA
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Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tricor Investor Services Limited
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28 Queen's Road East
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Hong Kong

PRINCIPAL BANKERS
Bank of China
Industrial and Commercial Bank of China
Industrial Bank Company Limited

SHARE INFORMATION
Stock code: 3363

COMPANY'S OFFICIAL WEBSITE ADDRESS
http://www.zhengye-cn.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Zhengye International Holdings Company Limited (the "Company "or "Zhengye International", together with its subsidiaries, our "Group" or the "Group") for the year ended 31 December 2012 (the "Year").

For Zhengye International, 2012 was a year full of opportunities and challenges. Home appliances and consumer markets, to which the Group's key customer base belongs, were affected by adverse factors such as the slowdown in the economy and continued property regulation within China, as well as overseas consumer sentiment weakened by the European debt crisis and the general contraction of paper markets due to depressed demand. However, as one of China's most powerful integration manufacturers of high-strength corrugated medium paper and paper-based packaging products, Zhengye International posted a record high turnover of more than RMB1,242,371,000 during the period. The Group actively promoted the sales of new and quality products, optimised its product portfolio, and built up its market share in Central China and Southern China, while keeping its internal costs under tight control during the period, which resulted in a steady year-on-year growth in turnover and a significantly higher gross profit margin. In addition, based on the Board's optimistic view on the demand and long-term development of high-strength corrugated medium paper and paper-based packaging products market, in 2012, the Group seized opportunity to build plants in Central China, expanding the overall capacity of the Group to support its further market expansion and new products promotion and prepare for the reviving consumer market as the global and Chinese economy recovers in the future, so as to achieve sustainable development and growth of the Group's business.

RESULTS OF THE YEAR

The Group recorded a turnover of approximately RMB1,242,371,000 for the year ended 31 December 2012, representing an increase of 6.75% as compared to the same period last year, and a new high for the third year running. The gross profit margin significantly increased to 20.85% from 18.50% for the same period last year. The profit of the Group slightly grew by 10.72% to approximately RMB51,417,000, as its distribution and selling expenses and administrative expenses increased by 47.45% and 34.37% respectively compared with 2011 due to the Group's expansion into new markets and construction of new plants to increase capacity during the period. Basic earnings per Share were RMB10 cents. The Board has proposed to pay a final dividend of RMB3.08 cents per Share to reward shareholders for their support.

The successful listing on the Main Board of the Stock Exchange of Hong Kong in June 2011 enabled Zhengye International to raise ample funds through the capital market. During the past year, the Group used internal resources to proactively expand its national distribution network and establish a strategic deployment of production facilities in Central China and Southern China as support. With eight production bases in Zhongshan, Zhuhai, Zhengzhou, Hefei, Wuhan and Shijiazhuang, the Group becomes a national integrated manufacturer that combines upstream waste paper recycling, high-strength corrugated medium paper production, corrugated cartons and honeycomb paper-based product's paper-based packaging products production, enjoying significant upstream resource and cost advantages within the industry.

CHAIRMAN'S STATEMENT (Continued)

PAPER-BASED PACKAGING PRODUCTS

The Group mainly produces paper-based packaging products, including corrugated cartons and honeycomb paper-based products, which are aimed at the huge consumer market shaped by the increasingly affluent Chinese, with domestic home appliances (especially household air conditioners and small home appliances) and food companies as its main target customers to provide various paper-based packaging products of good quality, load capacity and protection. The Group's production bases of paper-based packaging products are located in Zhongshan, Zhuhai, Zhengzhou, Hefei, Wuhan and Shijiazhuang. In 2012, the Group built 4 production bases in Zhengzhou, Hefei, Wuhan and Shijiazhuang, adding 3 corrugated cartons and 3 honeycomb paper-based products production lines, which were successively put into trial or actual production during the year. As at 31 December 2012, there were in total 9 corrugated cartons and 5 honeycomb paper-based products production lines with a designed annual capacity of 563,340,000 sq.m. and 21,290,000 sq.m. respectively. The capacity of corrugated cartons increased by 83.99%, while the capacity of honeycomb paper-based products jumped by 171.90% as compared with the prior year. The Board believes that when the new factories and equipments are formally put into production in 2013, the Group will be able to cater for the dynamic and changing consumer market by providing its customers with diversified products and flexible and prompt delivery in a more effective manner.

CORRUGATED MEDIUM PAPER

To secure adequate supply of quality raw materials for the Group's paper-based packaging products business, Zhengye International also engages in the research, development and production of quality corrugated medium paper, with a special focus on innovative technologies in special corrugated medium paper with light weight and high intensity. Currently, the Group owns seven paper patents with its products aligned to the highest national standard for product quality. Going forward, the Group will continue to enhance its cooperation in research and development with tertiary institutions and research institutions, maintaining its technical leadership. The Group's corrugated medium paper production base is located in Zhongshan, where a new machine with an annual capacity of 80,000 tons of specialty high-strength corrugated medium paper was installed during the period and put into production in November 2012. As at 31 December 2012, the Group had 4 corrugated medium paper machines, which increased the annual capacity to 300,000 tons by around 40% from the prior year. Coupled with its own waste paper recycling network, the vertically integrated business model of Zhengye International provides the Group with excellent upstream resource and cost advantages, helping it to beat the competition.

OUTLOOK & PROSPECTS

For 2013, the Board remains prudently optimistic about the market outlook of corrugated medium paper and paper-based packaging products. Although the State's policy on Home Appliances Going to the Countryside* (家電下鄉政策) had already expired, China reiterated the importance of nationwide urbanization and development in early 2013, which indicates that its economic growth will be led by urbanization in the next few years. Moreover, the Mainland property markets have gradually rebounded since mid-2012. As such, the Board believes the underlying demand for household consumer goods like home appliances will increase over time, which will in turn drive the Group's corrugated medium paper and paper-based packaging products business. Apart from domestic home appliances companies, the Group is also actively expanding its customer base to include companies in the food, seasoning and electronics industries and further extending the application of its products in order to achieve more sales.

Zhengye International is committed to innovation and superior quality, and will invest more in the research and development of energy-saving products, enhancing product quality to meet the market demand. In the meantime, the Group also focuses on strengthening its internal control and management, undertaking timely technical re-engineering for production lines to improve finished product rate, and keeping production costs and operating expenses under tight control, so as to further enhance the overall profitability of the Group.

During the last year, the Group successfully established an extensive distribution network and deployment of production facilities. Adequate capacity and technical strength have laid a good foundation for future explosive growth. The Group is well-positioned to capture more market share and maximise the return to shareholders by capitalising on the recovery of China's economy.

* *For identification purpose only.*

CHAIRMAN'S STATEMENT (Continued)

APPRECIATION

To accommodate our rapid business development, the Company optimised its Board structure by appointing Mr. Hu Hancheng (an executive director and the Vice-Chairman) as the Chief Executive Officer and Mr. Hu Hanchao (an executive director) as the Vice-Chairman and Chief Operating Officer.

In addition, the Company has successfully attracted professional talents to join the Board by appointing Mr. Chen Weixin ("Mr. Chen") and Mr. Yin Wenxin ("Mr. Yin") as executive directors. Mr. Chen has 30 years' experience in paper technologies and corporate management and was also the general manager of a subsidiary of the Group. Mr. Yin has 30 years' experience in the production management and research of recycled paper and packaging products and was the executive president of the Group's packaging division.

The Board would like to thank our customers, partners, suppliers and shareholders for their continuous support to the Group and extend its appreciation to all our management and staff for their dedication and contributions throughout the past year, helping the Group to achieve excellent performance in a tough environment. Zhengye International will endeavor to create value for shareholders by adhering to its indomitable spirit in taking firm steps to success.

Hu Zheng
Chairman

Hong Kong, 22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Revenue

The subdued demand in the manufacturing sector due to the slowdown of economy in China in 2012 had posed a challenge for the paper manufacturing and paper-based packaging manufacturing business during the Year. With the advantages of capitalizing on the Group's vertically integrated business model, coupled with the positive impact brought by the preferential and other policies to subsidize the consumption of household electrical appliances which had boosted the demand from major household electrical customers in the industry, the Group managed to achieve stable growth for its business with gradual increase in profits.

The revenue for the year ended 31 December 2012 (the "Year") was RMB1,242,371,000, representing a growth of 6.75% compared with RMB1,163,803,000 for the year ended 31 December 2011 (the "Year 2011"), this is mainly due to a substantial increase in the sales volume of the Group. The Group is one of China's most powerful integrated production manufacturers of corrugated medium paper and paper-based packaging products. All the sales of the Group were generated from the PRC, revenue from paper-based packaging products and corrugated medium paper represented about 58.13% and 41.87% respectively (2011: 55.33% and 44.67% respectively) of the total revenue of the Group.

Breakdown of the Group's principal activities

	2012			2011		
	Turnover RMB'000	**Percentage of total revenue %**	**Gross profit margin %**	Turnover RMB'000	Percentage of total revenue %	Gross profit margin %
Paper-based packaging products						
Corrugated cartons	**619,572**	**49.87**		592,389	50.90	
Honeycomb paper-based products	**102,669**	**8.26**		51,522	4.43	
Subtotal	**722,241**	**58.13**	**19.62**	643,911	55.33	21.64
Corrugated medium paper	**520,130**	**41.87**	**22.56**	519,892	44.67	14.61
Total	**1,242,371**	**100**	**20.85**	1,163,803	100	18.50

Paper-based packaging products

The revenue of the Group's paper-based packaging products recorded 12.16% growth from RMB643,911,000 in Year 2011 to RMB722,241,000 of Year 2012. The revenue of corrugated cartons and honeycomb paper-based products is RMB619,572,000 and RMB102,669,000 (2011: RMB592,389,000and RMB51,522,000), representing 85.78% and 14.22% respectively (2011: 92.00% and 8.00%) of the turnover of paper-based packaging products. The increase in revenue of the Group's paper-based packaging products was mainly due to the commencement of operation of new paper-based packaging production lines located in Shijiazhuang, Zhengzhou, Wuhan and Hefei during the year which enhanced production capacity, and the Group's active development of, and expansion into, the paper-based packaging products business.

Turnover by customer at paper-based packaging products

	2012		2011	
	RMB'000	**Percentage of total revenue (%)**	RMB'000	Percentage of total revenue (%)
Household air conditioners and small home appliances manufacturers	**581,828**	**80.56**	540,046	83.87
Food and seasoning manufacturers	**138,551**	**19.18**	102,782	15.96
Other	**1,862**	**0.26**	1,083	0.17
Total	**722,241**	**100.00**	643,911	100.00

The Group's main customers comprise household air conditioners and small home appliances manufacturers in China. The turnover for 2012 was RMB581,828,000 (2011: RMB540,046,000), up by 7.74% and representing 80.56% (2011: 83.87%) of the total turnover of paper-based packaging products. During the period, the Chinese government's continuous support of the Energy-saving Appliances Subsidy policy steadily raised the sales of household air conditioners and small home appliances and thus the demand for paper-based packaging markets. The Group plans to capture a larger share of food and seasoning packaging market to mitigate the risk of dependence on single market/customer by diversifying its revenue mix and customer base.

Corrugated medium paper

The turnover of corrugated medium paper slightly increased from RMB519,892,000 in2011 to RMB520,130,000 in 2012, representing an increase of 0.05%, which was mainly as a result of the increase in sales of corrugated medium paper offset by the drop in the market prices of paper-based products. During the period, for corrugated medium paper, the average selling price decreased by 9.42% to RMB2,713 per ton (2011: RMB2,995 per ton), which was due to the decrease in price of main raw materials, i.e. wasted paper, from the second half of 2011 to the first half of 2012, while sales volume increased by 10.45% to 191,740 tons (2011: 173,597 tons).

The Group's dedicated efforts in the research and development of new products and technological improvement also had brought positive returns to the Group during the year under review. These included the launch of the new products 65g/m² and 70g/m² corrugated medium paper to the market, which contributed considerable revenue to the Group.

Capacity and capacity utilization rate

The Group has a complete industrial chain that covers waste paper recycling, corrugated medium paper production and paper-based packaging product processing and other processes. In 2012, the Group's total designed annual capacity of corrugated cartons, honeycomb paper-based products and corrugated medium paper was 563,340,000 sq.m., 21,290,000 sq.m. and 300,000 tons respectively. Compared with that of 2011, the total designed annual output of corrugated cartons increased by 83.99%, while the total designed annual output of honeycomb paper-based products increased by 171.90%.

Paper-based packaging products

In 2012, 6 new paper-based packaging products production lines (including 3 corrugated cartons and 3 honeycomb paper-based products production lines) were put into production. Among these, 1 corrugated cartons production line located in Hefei was put into production at the beginning of 2013, which is expected to contribute to the Group's paper-based packaging business in 2013.

	2012			2011		
	Design capacity '000 sq.m.	**Actual capacity '000 sq.m.**	**Capacity utilization rate (%)**	Design capacity '000 sq.m.	Actual capacity '000 sq.m.	Capacity utilization rate (%)
Zhongshan						
No. 1 corrugated cartons production line	**38,880**	**31,529**	**81.09**	38,880	31,988	82.27
No. 2 corrugated cartons production line△	**5,940**	**2,099**	**35.34**	71,280	44,395	62.28
No. 3 corrugated cartons production line	**38,880**	**35,286**	**90.76**	38,880	27,987	71.98
No. 4 corrugated cartons production line	**38,880**	**36,376**	**93.56**	38,880	28,974	74.52
No. 7 honeycomb paper-based product production line	**4,320**	**3,735**	**86.46**	4,320	3,328	77.04
No. 8 honeycomb paper-based product production line	**3,510**	**1,694**	**48.26**	3,510	1,639	46.70
New No. 2 corrugated cartons production line※	**15,340**	**1,824**	**11.89**	N/A	N/A	N/A
Zhuhai						
No. 5 corrugated cartons production line	**72,900**	**44,003**	**60.36**	72,900	45,734	62.74
No. 6 corrugated cartons production line	**45,360**	**14,668**	**32.34**	45,360	12,450	27.45
Shijiazhuang						
No. 9 corrugated cartons production line※	**67,790**	**11,006**	**16.24**	N/A	N/A	N/A
No. 10 honeycomb paper-based product production line※	**3,340**	**1,059**	**31.71**	N/A	N/A	N/A
Zhengzhou						
No. 11 corrugated cartons production line※	**138,100**	**10,277**	**7.44**	N/A	N/A	N/A
No. 12 honeycomb paper-based product production line※	**3,990**	**911**	**22.83**	N/A	N/A	N/A
Wuhan						
No. 13 corrugated cartons production line※	**101,270**	**5,676**	**5.60**	N/A	N/A	N/A
No. 14 honeycomb paper-based product production line※	**6,130**	**1,199**	**19.56**	N/A	N/A	N/A
Total corrugated cartons	**563,340**	**192,744**	**34.21**	306,180	191,528	62.55
honeycomb paper-based product	**21,290**	**8,598**	**40.39**	7,830	4,967	63.44

※ No. 9, 10, 11, 12, 13, 14 and New No. 2 production lines were put into production in 2012.

△ No. 2 production line retired in 2012.

Corrugated medium paper

	2012			2011		
Zhongshan	**Planned operation (hours)**	**Actual operation (hours)**	**Effective rate (%)**	Planned operation (hours)	Actual operation (hours)	Effective rate (%)
No. 1 paper machine	**7,618**	**7,493**	**98.34**	7,977	7,711	96.67
No. 2 paper machine	**7,794**	**7,785**	**99.88**	7,620	6,961	91.35
No. 3 paper machine	**7,794**	**7,480**	**95.97**	7,562	7,309	96.65
No. 5 paper machine※	**552**	**414**	**75.00**	N/A	N/A	N/A

※ No. 5 paper machine was put into production in 2012

A production line of special corrugated medium paper with light weight and high intensity was put into production in Zhongshan in November 2012, with a design capacity of 80,000 tons of such special corrugated medium paper, which is expected to make significant contribution to the Group's corrugated medium paper business in March 2013.

Acquisition of land in Songzi City

As the paper making and paper-based packaging products market recover in China, the Group plans to undertake a strategic development in Central China to meet the demand from local customers. On 30 November 2012, the Group successfully acquired the land use rights to a parcel of land in Songzi, Hubei, which is a key location in Central China, for RMB28,800,000. The new paper factory and equipments are scheduled to be completed in 2 years. The Group believes the construction of the paper plant in Central China will further enhance its position in China's paper and packaging market.

Prospects

The PRC economy is marching towards recovery in 2013, the development of urbanization in China will bring new opportunities in household appliance industry, and have a beneficial impact on the paper-based packaging products market. We believe that, when the four new plants of the Group located in Central China and Northern China are fully operational at full capacity and come to fruition, they are expected to bring greater contribution in revenue and profits to the Group. In solidifying the foundation of our business, the Group is actively promoting the diversification of its customer base. The Group will continue to develop new products, explore new technique and technology to increase the competitiveness of its products. It is the Group's expectation to compete for a larger market share when the economy has improved and consumption demand recovered. Meanwhile, the Group has also collaborated with a leading IT application solution provider in the field in China to build up an information resource planning system for the Group and further regularize and standardize its internal management system and the business procedures for the Group's businesses in order to support the Group's business expansion plan, enhance economies of scale, tighten control in production costs and expenditures, so as to bring greater return to the shareholders as the profitability of the Group increases.

Cost of sales

The Group's cost of sales increased from RMB948,474,000 in 2011 to RMB983,276,000 in 2012, representing a growth of 3.67%, which is lower than the growth of turnover in 2012. This was mainly due to the improvement in corrugated medium paper technologies that led to higher efficiency of production plants and lower costs of production and sales.

Paper-based packaging products

The cost of sales of paper-based packaging products were RMB580,510,000 in 2012 (2011: RMB504,538,000), representing an increase of 15.06%, which was mainly a result of the rising price of raw materials for production including kraft inner paper and corrugated medium paper during the second half of the Year.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Corrugated medium paper
The cost of sales of corrugated medium paper were RMB402,766,000 (2011: RMB443,936,000), representing a growth of 10.22%.

Gross profit and gross profit margin
Due to the above, the gross profit increased by RMB43,766,000 or 20.33% from RMB215,329,000 in 2011 to RMB259,095,000 in 2012. The overall gross profit margin for 2012 was 20.85% (2011: 18.50%), representing an increase of 2.35 percentage points.

The gross profit from paper-based packaging products for 2012 was RMB141,731,000 (2011: RMB139,373,000), representing a growth of 1.69%. The overall gross profit margin for 2012 was 19.62% (2011: 21.64%), down by 2.02 percentage points.

The gross profit from corrugated medium paper for 2012 was RMB117,364,000 (2011: RMB75,956,000), representing a growth of 54.52%. The overall gross profit margin for 2012 was 22.56% (2011: 14.61%), up by 7.95 percentage points. This was due to the growth in sales volume of new 65g/m^2 corrugated medium paper products with a higher gross profit during the year, as well as the decrease in production costs resulting from technical re-engineering that improved the efficiency of production facilities.

Other income, other gains and losses
Other income, other gains and losses mainly included income from interest RMB4,274,000 (2011: RMB1,652,000) and government subsidies RMB6,400,000 (2011: RMB4,851,000).

Distribution and selling expenses
The distribution and selling expenses of the Group increased by approximately 47.45% from RMB34,321,000 for the Year 2011 to RMB50,606,000 for the Year, representing approximately 2.95% and 4.07% of the Group's revenue, respectively. The increases were mainly attributable to the increase in promotion expenses and costs of transportation due to business expansion when the production lines established in Shijiazhuang, Hefei, Wuhan and Zhengzhou of the Group have gradually become operational during the Year.

Administrative and other expenses
The Group's administrative expenses increased by approximately 34.37% from RMB62,719,000 for the Year 2011 to RMB84,278,000 for the Year, representing approximately 5.39% and 6.78% of the Group's revenue, respectively. The increase was primarily due to the planned business expansion, its staff costs increased from RMB33,230,000 for the Year 2011 to RMB53,447,000 in the Year.

Finance costs
Finance costs of the Group increased by approximately 36.12% from RMB28,259,000 for the Year 2011 to RMB38,466,000 for the Year primarily due to the need to obtain funds for the construction of new production lines and the acquisition of the land use rights to a piece of land in Songzi City, Hubei Province, the PRC for the Group's business expansion, causing an increase in borrowings and obligations under finance leases throughout the Year.

Interest rates of bank borrowings were at variable rates ranging from 1.0425% to 6.9825% for the Year, compared with 6.06% to 7.87% for the same period of last year.

The borrowings and obligations under finance leases amounted to RMB799,583,000 as at 31 December 2012, compared with RMB550,292,000 as at 31 December 2011.

Research and development cost
Research and development cost of the Group increased by 29.04% from RMB27,343,000 in the Year 2011 to RMB35,283,000 during the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and develop new products in response to the demand from customers to conduct research on new technology and new process to enhance production efficiency and product quality. In addition, the Group has placed great emphasis on environmental quality values as the Chinese government has been raising the environmental standard in the process of paper production. The Group has been upgrading its product quality on the one hand while raising its own environmental standard during the process of production of its products on the other hand so as to be consistent with, and fulfill the standard set by the government.

Income tax expenses
As in 2012, the Group's income tax expense was RMB10,750,000 (2011: RMB12,436,000), accounting 17.29% of the total profit (2011: 21.12%).

Profit and total comprehensive incomes
Due to the above factors, the net profit in 2012 was RMB51,417,000, with an increase of about 10.72% compared with RMB46,440,000 in 2011. This was mainly due to the big increase in finance costs, factory lease, salary, other operation and administrative expenses and research and development investment compared with 2011 as 4 new plants were put into production. The profit for the year saw a steady growth owing to the strenuous efforts of the Group's management and staff in maintaining the growth in turnover and sales volume while keeping its production costs under tight control, which increased the gross profit from sales.

Dividends
The Board recommends, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on Friday, 31 May 2013, the payment of a final dividend of RMB3.08 cents per Share for the year ended 31 December 2012 (2011: a final dividend of RMB2.78 cents per Share and a special dividend of RMB2.78 cents per Share, which is RMB5.56 cents in total) to those shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2013. The recommended final dividend, if approved at the AGM, will be paid in Hong Kong dollars. The RMB/Hong Kong dollar exchange rate for the final dividend will be calculated using the opening indicative counter buying telegraphic transfer rate for RMB of The Hong Kong Association of Banks, which will be published on the websites of the Stock Exchange and the Company together with the poll results of the AGM on Friday, 31 May 2013. The final dividend is expected to be paid on or around Tuesday, 25 June 2013.

Closure of register of members
The register of members of the Company will be closed from Tuesday, 28 May 2013 to Friday, 31 May 2013 (both days inclusive) for the purpose of determining shareholders of the Company who are entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Hong Kong Share Registrar"), at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on Monday, 27 May 2013.

The register of members of the Company will be closed from Thursday, 6 June 2013 to Friday, 7 June 2013 (both days inclusive) for the purpose of determining shareholders of the Company who qualify for the final dividend. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong Share Registrar for registration by 4:30 p.m. on Wednesday, 5 June 2013.

LIQUIDITY AND CAPITAL STRUCTURE

Cash flow
As at 31 December 2012, the Group had a net cash outflow of RMB8,314,000. The amounts arising from operating activities and financing activities were RMB101,693,000, and RMB152,007,000 respectively, while the cash outflow of investment activities recorded during the Year was RMB262,014,000.

The net amount of the cash outflow arising from investment activities for the payment of purchasing properties, plant and equipment, deposit paid for leasehold land and deposits paid for acquisition of property, plant and equipment were RMB136,473,000, RMB28,800,000 and RMB13,897,000 respectively.

Inventories
The inventories slightly increased 3.15% to approximately RMB116,487,000 as at 31 December 2012, compared to approximately RMB112,933,000 as at 31 December 2011. During the Year, the inventory turnover day was approximately 43 days (2011: 41 days) which was at a normal level.

Trade receivables
As at 31 December 2012, the trade receivables amounted to RMB378,529,000 (as at 31 December 2011: RMB302,287,000). We granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days. The turnover day for trade receivables was lengthened to 100 days (as at 31 December 2011: 94 days) primarily due to the business expansion in our packaging business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Trade payables
As at 31 December 2012, the trade payables amounted to RMB279,167,000 (31 December 2011: RMB285,678,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The turnover day for trade payables was maintained at 105 days (31 December 2011: 105 days).

Borrowings
As at 31 December 2012, the Group's borrowings balance amounted to RMB734,491,000 (as at 31 December 2011: RMB499,227,000).

As at 31 December 2012, the gross gearing ratio was approximately 40.73% (as at 31 December 2011: 34.36%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio was 81.43%, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2011: 57.83%).

Pledge of assets
As at 31 December 2012, the Group pledged certain assets with carrying value of RMB637,159,000 as collateral for the Group's borrowing (as at 31 December 2011: RMB605,995,000). Please refer to Note 33 to the Consolidated Financial Statements of the Company for details.

Capital commitments
As at 31 December 2012, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB62,216,000 (as at 31 December 2011: RMB64,460,000). All the capital commitments were related to purchasing new properties, factories and facilities as well as the leasing of land.

Contingent liabilities
The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2012.

Foreign currency exposure
The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currency of United States and the currency of Hong Kong, the exposures to exchange rate fluctuations is minimal. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

HUMAN RESOURCE MANAGEMENT

The Group had 3,730 employees as at 31 December 2012 (as at 31 December 2011: 3,673 employees). The staff costs amounted to RMB153,053,000 for the year ended 31 December 2012 (for the year ended 31 December 2011: RMB129,087,000).

Our remuneration is determined by reference to the employees' experience, qualification and overall market situation, while the bonus is related to the financial performance of the Group and the individual performance. The Group also undertakes to provide proper trainings and sustainable professional development opportunities for the employees if needed.

The Company has also adopted a share option scheme (the "**Share Option Scheme**") with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimize their contributions to the Group and to reward them for their contribution to the Group.

As at 31 December 2012, options to subscribe for a total of 21,350,000 shares in the Company were granted to the Directors and the employees under the Share Option Scheme.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hu Zheng (胡正), aged 50, is currently the vice president of the China Packaging Federation. Within our Group, he is the Chairman, executive Director and one of the founders. Furthermore, Mr. Hu Zheng is the Chairman of the nomination committee and member of the remuneration committee. Mr. Hu Zheng is responsible for overseeing the overall corporate management, operation and development planning and had over 20 years of experience in the paper-making and packaging industries. Prior to founding our Group, Mr. Hu Zheng worked as a technician and as assistant engineer at a then state-owned paper factory since 1983 then he was a director of a PRC paper and packaging products manufacturing factory, responsible for the management of daily operation and strategic planning from 1990 to 2003. In October 1981, Mr. Hu Zheng graduated from Guangdong Foshan Vocational College (廣東佛山職業技術學院) formerly known as Guangdong Foshan Region Agricultural Mechanical College (廣東省佛山地區農業機械化學校) and completed a Master of Business Administration at the Macau University of Science and Technology (澳門科技大學) in August 2001. Mr. Hu Zheng is the brother of Mr. Hu Hancheng (an executive Director and a substantial shareholder of the Company (the "**Shareholder**") through his interests in Golden Century Assets Limited) and Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Hanxiang (a non-executive Director).

Mr. Hu Hancheng (胡漢程), aged 53, has been appointed an executive Director since 4 March 2011. He is also the Chief Executive Officer and the Vice-Chairman of the Company, responsible for the comprehensive operation management of the Group. He joined the Group in 2003 and has been the legal representative of Zheng Ye Packaging (Zhongshan) Company Limited, an indirectly wholly-owned subsidiary of the Company, since December 2007. Mr. Hu Hancheng is also the president of the packaging business division of the Group in charge of the management and operation of the packaging business division. Prior to joining the Group, Mr. Hu Hancheng was the general manager of a PRC packaging products manufacturing factory from 1997 to 2003 responsible for the overall operational management of the business. Mr. Hu Hancheng is currently the vice-president of Zhongshan Association of Packaging Industry. In January 1995, Mr. Hu Hancheng completed an economic management program at the Guangdong Polytechnic College (廣東省工程職業技術學院) formerly known as Guangdong Province Adult Technology University (廣東省成人科技大學). Mr. Hu Hancheng is brother of Mr. Hanchao and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hanchao (胡漢朝), aged 55, joined our Group in 2003 and he was appointed as a Director in September 2010 then was designated as an executive Director in March 2011 and appointed as Vice Chairman in November 2012. Mr. Hu Hanchao is responsible for the daily operations management of the Group and supervised the daily comprehensive operation management in paper division. He has been involved in corporate management for more than 26 years. Prior to joining the Group, Mr. Hu Hanchao was the deputy general manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the overall operational management of the business and before that he was the assistant manager of Xinhua Bookshop from 1985 to 1994. In August 1985, Mr. Hu Hanchao graduated from Zhongshan Municipal Communist Party Cadre School (中山市幹部學校). Mr. Hu Hanchao is the brother of Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited) and Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited) and Mr. Hu Hanxiang (a non-executive Director).

Mr. Chen Weixin (陳維新), aged 55, joined our Group in 2003 and appointed as an executive Director in September 2012. Prior to his becoming an executive Director, Mr. Chen was the general manager of Zhongshan Yong Fa Paper Industry Company Limited ("Zhongshan Yong Fa Paper") and was in charge of the operations management. Mr. Chen has 30 years of experience in papermaking technology and corporate management. He served as the engineer in Guangdong Zhongshan Paper Factory (廣東省中山造紙廠) from 1982 to 1992 and subsequently worked in several papermaking enterprises during the period from 1992 to 2003 assisting with the general business operations management. Mr. Chen graduated in 1982 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making processes (undergraduate diploma). He completed the refresher course of South China University of Technology (華南理工大學) in 1989 and was awarded a diploma of industrial management.

Mr. Yin Wenxin (尹文欣), aged 56, joined our Group in 2003 then he was appointed as an executive Director in September 2012. Prior to his becoming an executive Director, Mr. Yin was the executive president of our Group's packaging business division responsible for the operations management. Mr. Yin has been involved in the production management and research of recycled paper and packaging products for over 30 years. Prior to joining our Group, Mr. Yin worked for Gannan Paper Factory (贛南造紙廠) as an engineer from 1976 to 1994.

Thereafter, he was the vice president at a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the operations management. Mr. Yin graduated from Jiangxi Radio & TV University (江西廣播電視大學) in August 1983 majoring in mechanics.

Non-Executive Directors

Mr. Hu Hanxiang (胡漢祥), aged 58, joined our group in 2004 as a supervisor of Zhongshan Yong Fa Paper and he was appointed as a non-executive Director of the Company in March 2011. Prior to joining the Group, Mr. Hu Hanxiang had worked for the Guangdong Provincial Light Industry Bureau for 20 years and was the department chief of the Personnel Affairs and Education Department of Guangdong Provincial Light Textile Industry Office from 1995 to 2000, responsible for human resources management. In July 1986, Mr. Hu Hanxiang graduated from Guangdong Province Economic Management Bureau College (廣東省經濟管理幹部學院). Mr. Hu Hanxiang is the brother of Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited), Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited).

Independent Non-Executive Directors

Mr. Zhu Hongwei (朱宏偉), aged 49, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. He was an independent director of Guangdong Hydropower Engineering Group Company Limited during the period from September 2003 to December 2009. Mr. Zhu was an associate professor of Guangdong Polytechnic Normal University from February 2006 to December 2010 after which he has been appointed as a professor. He has in-depth knowledge in corporate management, having received tertiary education and undertaken faculty and research positions at various universities. Mr. Zhu graduated from Sichuan University (四川大學) with a Bachelor of Science degree in July 1983 and holds a Master of Science degree awarded by Zhejiang University (浙江大學) formerly known as Hangzhou University (杭州大學) in June 1990 and a doctorate degree in corporate management awarded by Zhongnan University of Economics and Law (中南財經政法大學) in June 2000.

Mr. Wu Youjun (吳友俊), aged 45, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Wu has been currently chairman of the Guangdong Branch of Yinji Bank of Investment Guarantee Company Limited (銀基擔保有限公司) since May 2008. Mr. Wu was the vice supervisor of the Guangzhou Representative Office of Ng & Shum Solicitors & Notaries of Hong Kong and acts as its head of the China Department from 1994 to 1998. Mr. Wu studied industrial enterprises management at the Southwestern University of Finance and Economics (西南財經大學) and graduated in June 1989, and studied banking and currencies at the Jinan University (暨南大學) and graduated in January 1998, followed by a Master of Business Administration degree from the Macau University of Science and Technology in October 2001.

Mr. Chung Kwok Mo John (鍾國武), aged 44, joined the Company on 4 March 2011 as an independent non-executive Director. Furthermore, he is the Chairman of both audit committee and remuneration committee and also a member of nomination committee of the Company. Mr. Chung has over 20 years of experience in auditing, financial management and corporate finance and he had acted as the chief financial officer of Xiwang Special Steel Company Limited (a company listed on the Stock Exchange and stock code: 1266) since September 2011. Before that, Mr. Chung was an auditor in an international accounting firm during 1992 to 1999. Since 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. Chung graduated from Macquarie University, Australia in 1992 with a Bachelor of Economics degree, then became a member of Hong Kong Institute of Certified Public Accountants in 1996 and that of CPA Australia in 1995.

SENIOR MANAGEMENT

Mr. Hong Guanghua (洪光華), aged 49, joined our Group in 2003. Mr. Hong is the deputy general manager of Zhongshan Yong Fa Paper assisting with the operation and management of Zhongshan Yong Fa Paper. Mr. Hong has 27 years of experience in the management of paper production, during which he has developed from technical and production supervision to system management of the entire papermaking process. Mr. Hong has worked in the paper manufacturing division of

Zhongshan Sugar Group as the assistant engineer (助理工程師). Prior to joining our Group, Mr. Hong was the production manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the production management of the business. Mr. Hong graduated from South China University of Technology (華南理工大學) in 1984 majoring in light industry mechanics and completed the Master of Business Administration from Asia International Open University (Macau) in August 2004. He holds the title of light-industry mechanical engineer (輕工機械工程師) awarded by Zhongshan Intermediate Engineering Technician Assessment Committee (中山市工程技術人員中級職務評審委員會) in April 1992.

Mr. Fu Zhongyang (符中揚), aged 54, joined our Group in 2003. Mr. Fu is deputy general manager of Zhongshan Yong Fa Paper and is in charge of the sales operation. Mr. Fu has over 21 years of experience in paper sales with expertise in paper-making and economics. Mr. Fu was a technician at Zhongshan Sugar Group from 1980 to 1986 and was involved in the marketing of paper products since 1988. Prior to joining our Group, Mr. Fu was the sales manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2001 to 2003 responsible for the sales of paper products. Mr. Fu graduated from the Department of Management Engineering of South China University of Technology (華南理工大學) in July 1988, majoring in industrial management. Mr. Fu was awarded the titles of assistant engineer (助理工程師) in paper-making processes in December 1989 and assistant economist by Zhongshan Science and Technology Committee (中山市科學技術委員會) in July 1992 and economist by the Ministry of Personnel of the PRC in October 1996.

Mr. Du Zigan (杜梓干), aged 49, joined our Group in 2003. Mr. Du is the executive general manager of Hubei Yong Fa Paper and is in charge of the operation and management. Mr. Du has 28 years of experience in the enterprise management of production. Mr. Du commenced his career as technician and electrician at thermoelectric power factory of Zhongshan City Zhongtang Group (中山市中糖集團熱電廠) and was the factory manager from 1996 to 2003. After joining our Group, Mr. Du was the factory manager of thermoelectric power factory of Zhongshan Yong Fa Paper and the deputy general manager of the Company. Mr. Du graduated from Economic Management School of Guangdong Provincial Party School (廣東省委黨校經濟管理學院) in 2000, majoring in economic management.

Mr. Zhang Xiaoming (張曉明), aged 50, joined our Group in 2003. Mr. Zhang is the deputy vice president of packaging business division of the Group responsible for the project and corporate management of the division. Mr. Zhang has been involved in the papermaking and packaging industry for over 26 years with a strong edge in administration having spent years in a management capacity. Prior to joining our Group, Mr. Zhang worked for Guangdong Zhongshan Paper Factory and was the deputy general manager of a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the overall sales management of the business. Mr. Zhang graduated in July 1985 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making.

Mr. Li Jun (李俊), aged 50, joined our Group in 2003. Mr. Li is the sales vice president of packaging business division of the Group to responsible for the management of the marketing centre of the division. Mr. Li has been involved in paper-making process technologies and sales management of packaging products since graduation. Prior to joining our Group, Mr. Li worked for Chenzhou Hongqi Paper Factory (郴州紅旗造紙廠) from 1982 to 1993 and was responsible for the production technology and subsequently at Chenzhou Hongqi Number Two Paper Factory (郴州第二造紙廠) as assistant plant manager till 1996. Mr. Li was the head of the transportation department at a PRC packaging products manufacturing factory from 1999 to 2003 responsible for the inventory and logistic management of the business. Mr. Li graduated from Hunan Vocational College for Light Industry (湖南省輕工業專科學校) in July 1982, majoring in paper-making processes, and obtained professional qualification as an engineer (工程師) awarded by Human Resources Bureau of Hunan Province (湖南省人事廳) in July 1992.

Mr. Huang Zhichang (黃志昌), aged 50, joined our Group in 2004. Mr. Huang is the general manager of the Group and is in charge of project development. Mr. Huang has over 26 years of experience in the technology, production and management of papermaking industry. He was a director of Paper-making Institute of Guangdong Province (廣東省造紙學會). Prior to joining our Group, he served as the engineer and head of technology reform office in Guangdong Zhongshan Paper Factory from 1983 to 2004, and was responsible for production management and technology reform. Mr. Huang graduated in 1983 from Guangzhou College of Light Industry (廣州輕工業學校) administered by the Ministry of Light Industry, majoring pulp paper making processes (undergraduate diploma).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Mr. Jiang Xianfan (江賢范), aged 42, joined our Group in 2009. Mr. Jiang is the deputy general manager of the Group in charge of the overall project and technology management. Mr. Jiang has 19 years of experience in paper-making, having been posted to China Light Industry Nanning Design Work Company Limited (中國輕工業南寧設計工程有限公司) since graduation, during which he was involved in the design of numerous large-scale projects. Mr. Jiang graduated from Nanjing Forestry University (南京林業大學) in June 1992 majoring in pulp paper manufacturing and holds the title of senior engineer awarded by China Haicheng International Engineering Investment Institute (中國海誠國際工程投資總院) in December 2003.

Mr. Liu Fengming (劉風鳴) , aged 52, joined our Group in 2004. Mr. Liu is the assistant general manager of the Group and is in charge of project development. Before joining our Group, Mr. Liu worked on paper making mechanic design and project management. Mr. Liu worked at Tianjin Paper Making Machinery Factory (天津造紙機械廠) and was in charge of paper making mechanical design and research from 1981 to 2004. Mr. Liu has 30 years of experience in paper making technology and enterprises management. Mr. Liu obtained the title of senior engineer awarded by Human Resources Bureau of Tianjin (天津市人事廳) in July 2000. Mr. Liu graduated from Tianjin City Vocational College (天津城市職業學院) in 1987, majoring in mechanical engineering.

Mr. Chu Deliang (褚德亮), aged 47, joined our Group in 2003. Mr. Chu is the finance vice president responsible for overseeing the audit department and capital department and formulating our Group's investment strategies. Mr. Chu has over 20 years of experience in the accounting field. He was conferred the title of accountant by Human Resources Bureau of Hubei Province (湖北省人事廳) in September 1992 and the title of PRC certified public accountant in September 1999. He qualified as a certified public valuer approved jointly by the Ministry of Personnel and the Ministry of Finance of the PRC in September 2000. Mr. Chu further qualified as a registered tax agent as approved by the State Administration of Taxation of the PRC in June 2001.

Ms. Chen Wei (陳威), aged 37, joined our Group in 2007. Ms. Chen is the Chief Financial Officer of the Group and responsible for financial operations of the Group comprehensively. Ms. Chen has over 11 years of experience in financial management and tax services. She served as financial supervisor in several papermaking enterprises and group companies during the period from 1995 to 2001 and was in charge of accounting and financial management matters. Prior to joining our Group, Ms. Chen served as account manager and tax consultant in Zhongshan large-scale tax agent from 2005 to 2007. Ms. Chen completed the accounting course of Jinan University (暨南大學) in December 2005 and obtained a undergraduate diploma. Thereafter, she was awarded the business administration master degree from the University of Wales in April 2011, and obtained the title of senior accountant awarded by Human Resources Bureau of Guangdong Province (廣東省人事廳) in December 2008. In September 2009, Ms. Chen obtained professional qualification as a senior international finance manager awarded by International Financial Management Association. She is the member of International Financial Management Association.

COMPANY SECRETARY

Ms. Chan Yin Wah (陳燕華), aged 37, was appointed as the Company Secretary and the Authorized Representative of the Company in December 2011. Ms. Chan is an Associate Director of SW Corporate Services Group Limited. She has over 15 years of professional experience in handling the corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She has worked for various international professional firms and listed companies in Hong Kong. Ms. Chan holds a bachelor's degree in economics and a master's degree in professional accounting. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants.

CORPORATE GOVERNANCE REPORT

The directors of the Company (the "**Directors**") are pleased to present the corporate governance report in the annual report of the Company for the year ended 31 December 2012 (the "**Year**").

The Company has consistently adopted the Corporate Governance Code (formerly the "Code on Corporate Governance Practices") (the "**Code**") promulgated by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as guidelines to reinforce our corporate governance principles during the year. This report describes how the Company has applied the principles.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Code (effective from 1 April 2012) as stated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The overall management of the Company's business was vested in the board of directors (the "**Board**") of the Company. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. The Board comprised nine members, consisting of five Executive Directors namely, Mr. Hu Zheng *(Chairman)*, Mr. Hu Hancheng *(Vice-Chairman and Chief Executive Officer)*, Mr. Hu Hanchao *(Vice-Chairman and Chief Operating Officer)*, Mr. Chen Weixin and Mr. Yin Wenxin, one Non-Executive Director namely, Mr. Hu Hanxiang and three Independent Non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei as at 31 December 2012. The profiles of all directors and the relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are set out on pages 13 to 14.

The Company has received from each Independent Non-executive Director an annual confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules.

Five Board meetings were held during the financial year. All Directors actively participated in each meeting in person, via telephone or videoconferencing. They gave and received reports on the activities of the operating divisions and presented papers supporting decisions which required the Board approval. The Board consents were given by-vote at the Board meetings.

The dates of the 2012 regular Board meetings were determined according to the requirement of the Bye-laws and any amendments to this schedule were notified to all Directors at least 14 days before the meeting. Suitable arrangements were in place to allow Directors to include items in the agenda for regular Board meetings.

If a Director had a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual director would declare his interest and was required to abstain from voting. The matter would then be considered at a Board meeting attended by independent Directors who had no material interest in the transaction.

Details of the attendance of Directors at these Board meetings and at the meetings of three Board committees (the Audit Committee, the Remuneration Committee and the Nomination Committee) and the annual general meeting are set out in the following table:

	Meetings Attended/Meetings Held				
Name of directors	**Board Meeting**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Mr. Hu Zheng	5/5	N/A	1/1	3/3	1/1
Mr. Hu Hancheng	5/5	N/A	N/A	N/A	1/1
Mr. Hu Hanchao	5/5	N/A	N/A	N/A	1/1
Mr. Chen Weixin (appointed on 1 September 2012)	3/3	N/A	N/A	N/A	N/A
Mr. Yin Wenxin (appointed on 1 September 2012)	3/3	N/A	N/A	N/A	N/A
Non-Executive Director					
Mr. Hu Hanxiang	5/5	N/A	N/A	N/A	1/1
Independent Non-Executive Directors					
Mr. Chung Kwok Mo John	5/5	2/2	1/1	3/3	1/1
Mr. Wu Youjun	4/5	2/2	1/1	3/3	1/1
Mr. Zhu Hongwei	5/5	2/2	1/1	3/3	1/1

All Directors had access to the services of the company secretary who regularly updated the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of respective duties, might take independent professional advice (through the Chairman) at the Company's expense. The availability of professional advice extended to the Audit Committee, the Remuneration Committee and the Nomination Committee.

Minutes of Board meetings and meetings of Board committees, together with any supporting documents, were available to all Directors. Draft and final versions of the minutes were sent to all Directors for their comment and record respectively.

BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, throughout the year ended 31 December 2012. During the year, these committees adhered to their principles, procedures and arrangements set out above. The respective committee secretary or designated person took full minutes of the meetings of these committees and the work of these committees was reported to the Board regularly.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Mr. Hu Zheng was the Chairman of the Company since 4 March 2011, and also performed the role of CEO until Mr. Hu Hancheng was appointed as the CEO with effect from 15 November 2012 to enhance the corporate governance of the Group. The Board viewed that, under the leadership of Mr. Hu Zheng as the Chairman of the Company, the Board's decision could be made effectively and the arrangement for Mr. Hu Zheng to perform the dual roles of Chairman and CEO of the Company prior to the taking up of the role of CEO by Mr. Hu Hancheng was beneficial to the management and development of the business of the Group and were in the best interests of the Company and its shareholders as a whole after having considered the size, business operation and nature of the Company. The Chairman of the Company has taken up the role of providing leadership for the Board and ensures that the Board works effectively and discharges its responsibility properly.

Mr. Hu Hancheng as the CEO of the Company, was delegated with the authority and responsibility to operate the Group's business and day-to-day operation, and implemented the Group's strategy with respect to the achievement of the business objectives with the assistance of the Executive Directors and the senior management.

NON-EXECUTIVE DIRECTORS

Each Independent Non-executive Director and Non-executive Director was appointed with specific terms. Each of them is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company (the "**Bye-laws**").

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, the Company confirms that all Directors have complied with the required standards set out in the Model Code throughout the year ended 31 December 2012.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Liability insurance for Directors and senior management of the Company was arranged by the Company with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions on 23 March 2012. The terms of reference of the Board in respect of corporate governance function are summarized as follows:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the code provisions set out in the Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2012 included developing and reviewing the Company's policies on corporate governance and making recommendations.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under A.6.1 and A.6.5 of the Code effective on 1 April 2012 on Directors' training, all Directors namely Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao, Mr. Chen Weixin, Mr. Yin Wenxin, Mr. Hu Hanxiang, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei have completed in continuous professional development training by attending the in-house training of "The Responsibility and Obligation of the Directors in Hong Kong Listed Company" and "The Essential Requirements of the Corporate Governance under the Listing Rules" organized by the consultancy training company. Mr. Chung Kwok Mo John attended the training of "Disclosure of Inside Information for INEDs" and "Corporate Governance and Regulatory Updates" outside the Company additionally. All Directors have provided a training record to the Company.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee for the purposes of making recommendations to the Board on the Company's remuneration policy and structure for directors and senior management.

The Remuneration Committee presently comprises one Executive Director (namely Mr. Hu Zheng) and three Independent Non-executive Directors (namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei). The Committee is chaired by Mr. Chung Kwok Mo John. The Remuneration Committee held one meeting during the year and detail of attendance is shown in the table on page 18. The work of the Remuneration Committee during the year ended 31 December 2012 included the following matters:

- make recommendations to the Board of the remuneration of Non-executive Directors for the year ended 31 December 2012. The Remuneration Committee has considered factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

- review and approve remuneration and performance — based remuneration scheme of Executive Directors from time to time by reference to corporate goals and objectives resolved by the Board from time to time; and

- ensure that no Director or any of respective associates is involved in deciding their respective remuneration.

The Remuneration Committee has adopted the model that it will review the proposals made by the management on the remuneration of executive Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the Remuneration Committee.

The Company has adopted a share option scheme (the 'Scheme') whereby the Board may at its discretion grant options to such eligible participants (as defined in the Scheme) to subscribe for shares in the Company. The principal terms of the Scheme are set out in Appendix V to the prospectus of the Company dated 24 May 2011. The purpose of the Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group.

NOMINATION COMMITTEE

According to the Bye-laws, the Directors shall have power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. A director appointed by the Board is subject to re-election by shareholders at the next following general meeting of the Company. The nomination should be taken into consideration of the nominee's skills and experience appropriate for the requirements of the Company's business.

The Company has established a Nomination Committee for the purpose of making recommendations to the Board on the appointment of directors.

The Nomination Committee presently comprises four Directors, including the Chairman, Mr. Hu Zheng, an Executive Director, and three Independent Non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei. The Committee is chaired by Mr. Hu Zheng.

The Board delegates the responsibility of appointing and re-electing Directors to the Nomination Committee and they are responsible for considering the suitability of a candidate, and approving and terminating the appointment of a Director. Reviews of the plans for orderly succession for appointment to the Board and its structure, size and composition are done on a regular basis by the Nomination Committee. They are provided with sufficient resources to discharge its duties and external consultants may be engaged, if necessary, to access a wider range of potential candidate(s).

In evaluating whether an appointee is suitable to act as a director of the company, the committee will review the professional knowledge, industrial experience and personal skills of the appointee as well as personal ethics and integrity of the appointee.

According the Bye-laws, at each AGM of the Company, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. Director(s) newly appointed by the Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election at the meeting.

The Board considers that it is the responsibility of the existing Directors to give an induction on the information of the Group to the newly appointed Director and present a manual on the duties and responsibilities as a director of a listed company to enable the newly appointed Director to have a proper understanding of the business.

Three Executive Directors, namely, Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao had entered into a service contract with the Company for a period of three years commencing from 4 March 2011, which is renewable automatically for successive terms of one year upon expiry of the then current term of his appointment, unless terminated in accordance with the terms of the service contract. Two Executive Directors, namely Mr. Chen Weixin and Mr. Yin Wenxin had entered into a service contract with the Company for a period of 2 years and 4 months commencing from 1 September 2012. The Non-executive Director and each of the Independent Non-executive Directors had signed a letter of appointment with the Company for an initial term of one year commencing from 4 March 2011 and is renewable upon its expiration and may be terminated in accordance with the terms of the letter of appointment. During the financial year ended 31 December 2012, there were three meetings held by the Nomination Committee. Details of attendance is shown in the table on page 18.

The work of the Nomination Committee during the year ended 31 December 2012 included the following matters:

- to make recommendation to the Board on the appointment of Mr. Chen Weixin and Mr. Yin Wenxin as Executive Directors of the Company on 1 September 2012;
- to make recommendation to the Board on the appointment of Mr. Hu Hancheng as chief executive officer and Mr. Hu Hanchao as vice-chairman of the Company on 15 November 2012; and
- to assess the independence of Independent Non-executive Directors.

AUDITORS' REMUNERATION

For the year ended 31 December 2012, the fees charged by the Company's auditors in respect of audit and non-audit services in relation to interim results review amounted to approximately RMB1,400,000 and RMB446,000 respectively.

AUDIT COMMITTEE

The Company has established an Audit Committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls.

The Audit Committee presently comprises three Independent Non-executive Directors of the Company (namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei) and is chaired by Mr. Chung Kwok Mo John.

The Audit Committee held two meetings during the year and details of attendance is shown in the table on page 18. The work of the Audit Committee during the year ended 31 December 2012 included the following matters:

- provide recommendation to the Board on the reappointment of external auditors, and to approve the audit fee and terms of engagement of the external auditors;
- review and monitor external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discuss with external auditors before audit commences, the nature and scope of the audit and reporting obligations;
- monitor integrity of financial statements, interim report and annual report, and to review significant financial reporting judgments contained in them;
- review financial controls, internal controls and risk management systems;
- discuss with management regarding the system of internal controls and ensure that management has discharged its duty to have an effective internal control system including adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and their training programmes and budget;
- ensure co-ordination between internal and external auditors, and to ensure that internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of internal audit function;

- review financial and accounting policies and practices; and

- review external auditors' management letter, any material queries raised by auditors to management in respect of accounting records, financial accounts or systems of control and management's response.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge the responsibilities for preparing the accounts of the Company. The external auditors' statement about their reporting responsibilities is set out on page 34.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

INTERNAL CONTROLS

The Board has kept the Company's system of internal controls under review to ensure its effectiveness and convened meetings regularly to discuss financial, operational and risk management control.

COMPANY SECRETARY

Ms. Chan Yin Wah of SW Corporate Services Group Limited, an external service provider, has been engaged by the Company as the company secretary since December 2011, the biographical detail is set out in the section headed "**Profiles of Directors and Senior Management**" in this annual report. Ms. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the year. The primary contact person of the Company is Ms. Chen Wei, Chief Financial Officer.

COMMUNICATION WITH SHAREHOLDERS

The company endeavors to maintain an on-going dialogue with its shareholders, and in particular through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 31 May 2013 to answer any questions from shareholders.

The Group's official website http://www.zhengye-cn.com contains an 'Investor Relations' section which offers timely access to the Company's press releases, financial reports and announcements.

The Company will continue to maintain an open and effective investor communication policy and to update investors with relevant information of the Group in a timely manner.

SHAREHOLDERS' RIGHTS

Right to Convene Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

Pursuant to the Bye-laws 65 of the Bye-laws and section 74(1) of the Bermuda Companies Act, in addition to regular Board meetings, the Directors of the Company, on the requisition of shareholders of the Company holding not less than one-tenth of the paid-up capital of the Company, can convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the principal place of business of the Company in Hong Kong. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Right to Put Forward Enquiries to the Board

Shareholders' enquiries can be directed to the principal place of business of the Company in Hong Kong. The address is set out in the "CORPORATE INFORMATION" section of this annual report for the attention of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

At the 2012 AGM, amendments to the New Bye-laws of the Company were approved by the shareholders of the Company, mainly to bring the Bye-laws of the Company in line with the amendments made to the Listing Rules. An updated version of the Memorandum of Association and the new Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders their report together with audited consolidated financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacturing and sale of paper, paperboard and paper-based packaging products. The principal activities of the subsidiaries are set out in note 39 to the consolidated financial statements.

RESULTS AND APPROPORTIONS

The results of the Group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 35 to 79 of this annual report.

The Directors now recommend the payment of a final dividend of RMB3.08 cents per share to the shareholders on the register of members on 6 June 2013, amounting to approximately RMB15,400,000 and the retention of the of the remaining profit for the year of approximately RMB16,808,000.

The dividend will be payable in HK$. The exchange rate will be based on the opening indicative counter exchange rate (Buying TT for RMB) as on 31 May 2013 (the date of AGM of the Company) disclosed by The Hong Kong Association of Banks.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the financial year under review are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2012, calculated in accordance with the provision of the Bermuda Companies Act 1981, amounted to RMB32,208,000.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 80 of this annual report.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities shares during the year ended 31 December 2012.

PRE-EMPTIVE RIGHTS

There are no pre-emptive under the Company Bye-laws, or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors of the Company during the year ended and up to the date of this report were:

Executive Directors
HU Zheng (Chairman)
HU Hancheng (Vice-Chairman and Chief Executive Officer)
HU Hanchao (Vice-Chairman and Chief Operating Officer)
CHEN Weixin (appointed on 1 September 2012)
YIN Wenxin (appointed on 1 September 2012)

Non-Executive Director
HU Hanxiang

Independent Non-Executive Directors
CHUNG Kwok Mo John
WU Youjin
ZHU Hongwei

The Company confirms that it has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), and it still considers that the independent non-executive Directors are independent.

In accordance with Bye-law 112 of the Bye-laws, Mr. Chen Weixin and Mr. Yin Wenxin who were appointed as the executive Directors by the Board on 1 September 2012 will hold office only until the forthcoming AGM and being eligible, have offered themselves for re-election at the forthcoming AGM.

Pursuant to Bye-Law 108 of the Company's Bye-Laws, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Mr. Hu Hancheng, Mr. Hu Hanxiang and Mr. Wu Youjun shall retire from office by rotation at the forthcoming AGM and, being eligible, offer themselves was for re-election as Directors at the AGM.

DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set and on page 13 to 16 of this annual report.

DIRECTORS' SERVICE CONTRACTS

For Executive Directors, each of Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao has entered into a service contract with the Company for a term of three years commencing from 4 March 2011, and each of Mr. Chen Weixin and Mr. Yin Wenxin has entered into a service contract with the Company for a term of two years and four months commencing from 1 September 2012. Both are subject to termination by either party giving not less than three months' written notice to the other.

The non-executive Director, Mr. Hu Hanxiang and each of the independent non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei have been appointed for a term of one year commencing from 4 March 2012 and the appointment may be terminated by either party giving not less than three months' written notice to the other.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

EMOLUMENT POLICY

The emolument policies of the Directors and other employees are formulated based on individual experience, qualification and over market situation and are reviewed regularly, while the bonus is related to the financial performance of the Group and the individual performance. The Directors' remunerations are subject to shareholders' approval at general meetings.

Pursuant to paragraph B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration band (RMB)	Number of individuals
0–500,000	5
500,000–1,000,000	3
1,000,000–2,000,000	2

Details of the Directors' emolument and emoluments of the five highest paid individuals in the Group are set at the notes 12 and 13 to consolidated financial statements.

DIRECTOR'S INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Continuing Connected Transactions" in this report and note 38 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests in the Securities of the Company or its Associated Corporations", and "Share Option Scheme", at no time during the year were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SECURITIES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the directors and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the ("**SFO**")) as recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise as required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of Directors	Name of Group member/ associated corporation	Capacity/ Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Hu Zheng	The Company	Interest of controlled corporation (Note 2)	191,250,000 ordinary shares of HK$0.10 each	38.25%
	Gorgeous Rich Development Limited ("Gorgeous Rich")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hancheng	The Company	Interest of controlled corporation (Note 3)	93,750,000 ordinary shares of HK$0.10 each	18.75%
	Golden Century Assets Limited ("Golden Century")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanchao	The Company	Interest of controlled corporation (Note 4)	75,000,000 ordinary shares of HK$0.10 each	15%
	Leading Innovation Worldwide Corporation ("Leading Innovation")	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanxiang	The Company	Interest of controlled corporation (Note 5)	15,000,000 ordinary shares of HK$0.10 each	3%
	Fortune View Services Limited ("Fortune View")	Beneficial owner	1 ordinary share of US$1.00	100%

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 31 December 2012.

2. These shares were held by Gorgeous Rich, which was wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich.

3. These shares were held by Golden Century, which was wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century.

4. These shares were held by Leading Innovation, which was wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation.

5. These shares were held by Fortune View, which was wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang was deemed to be interested in the shares held by Fortune View.

Share Options to subscribe for the ordinary shares of HK$0.10 each in the Company were granted to, among others, certain directors of the Company pursuant to the Share Option Scheme adopted by the Company on 3 June 2011. Information in relation to these Share Options was shown in the following section under the heading "Share Option Scheme".

Save as disclosed above and in the paragraph headed "Share Option Scheme" below, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the Register.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 31 December 2012, so far as are known to any director or chief executive of the company, the persons (other than the directors and the chief executive(s) of the company) were recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as leasing directly or indirectly interested or deemed to the interested in 5% or more of the issued share capital of the Company.

Name of Shareholder	Capacity/Nature of interest	Number and class of shares held in the Company percentage (Note 1)	Approximate shareholding percentage
Gorgeous Rich Development Limited ("Gorgeous Rich") (Note 2)	Beneficial owner	191,250,000 ordinary shares of HK$0.10 each	38.25%
Ms. Li Lifen (Note 2)	Interest of spouse	191,250,000 ordinary shares of HK$0.10 each	38.25%
Golden Century Assets Limited ("Golden Century") (Note 3)	Beneficial owner	93,750,000 ordinary shares of HK$0.10 each	18.75%
Ms. Li Si Yuan (Note 3)	Interest of spouse	93,750,000 ordinary shares of HK$0.10 each	18.75%
Leading Innovation Worldwide Corporation ("Leading Innovation") (Note 4)	Beneficial owner	75,000,000 ordinary shares of HK$0.10 each	15.00%
Ms. He Lijuan (Note 4)	Interest of spouse	75,000,000 ordinary shares of HK$0.10 each	15.00%

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant shareholder(s) was/were interested in expressed as a percentage of the number of issued shares in the Company as at 31 December 2012.

2. Gorgeous Rich is wholly-owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng was deemed to be interested in the shares held by Gorgeous Rich. Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen was taken to be interested in the same number of shares in which Mr. Hu Zheng was interested.

3. Golden Century is wholly-owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng was deemed to be interested in the shares held by Golden Century. Ms. Li Si Yuan is the spouse of Mr. Hu Hancheng. Under the SFO, Ms. Li Si Yuan was taken to be interested in the same number of shares in which Mr. Hu Hancheng was interested.

4. Leading Innovation is wholly-owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao was deemed to be interested in the shares held by Leading Innovation. Ms. He Lijuan is the spouse of Mr. Hu Hanchao. Under the SFO, Ms. He Lijuan was taken to be interested in the same number of shares in which Mr. Hu Hanchao was interested.

Save as disclosed above, no other interest or short position in the shares or underlying shares in the Company were recorded in the Register.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**"), which was adopted on 3 June 2011 (the "**Adoption Date**"). Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from the Adoption Date. The major terms of the Share Option Scheme are summarized as follows:

The purpose of the Share Option Scheme is to provide incentives or rewards to selected eligible participants for their contribution to the Group. Under the Share Option Scheme, the Directors of the Company may grant options to any Directors, employees, suppliers, customers, service providers, shareholder, advisors of any member of the Group or any entity in which any member of the Group holds an equity interest and any other person whom the Directors consider, in its discretion, have contributed to the Group.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the share in issue as at the date of listing, unless shareholders' approval has been obtained, and in any event must not in aggregate exceed 30% of the share of the Company in issue from time to time. The total number of share issued and to be issued upon the exercise of the options granted to or to be granted to each participant under the Share Option Scheme in any 12-month period shall not exceed 1% of the share of the Company in issue.

The exercise price for the shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("**Offer Date**"); the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and the nominal value of the Company's shares. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

On 20 January 2012, options to subscribe for a total of 21,350,000 shares in the Company were granted pursuant to the Share Option Scheme. At the same time, the Company cancelled all options granted on 16 September 2011.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2012 is as follows:

				Number of share options				
Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	As at 1 January 2012	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2012
Hu Zheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	160,000	–	–	160,000
		0.82	1 July 2013 to 30 June 2014	–	170,000	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	–	170,000	–	–	170,000
Hu Hancheng (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	160,000	–	–	160,000
		0.82	1 July 2013 to 30 June 2014	–	170,000	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	–	170,000	–	–	170,000
Hu Hanchao (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	160,000	–	–	160,000
		0.82	1 July 2013 to 30 June 2014	–	170,000	–	–	170,000
		0.82	1 July 2014 to 30 June 2015	–	170,000	–	–	170,000
Chen Weixin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	830,000	–	–	830,000
		0.82	1 July 2013 to 30 June 2014	–	830,000	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	–	840,000	–	–	840,000
Yin Wenxin (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	830,000	–	–	830,000
		0.82	1 July 2013 to 30 June 2014	–	830,000	–	–	830,000
		0.82	1 July 2014 to 30 June 2015	–	840,000	–	–	840,000
Hu Hanxiang (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	130,000	–	–	130,000
		0.82	1 July 2013 to 30 June 2014	–	130,000	–	–	130,000
		0.82	1 July 2014 to 30 June 2015	–	140,000	–	–	140,000
Chung Kwok Mo John (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	100,000	–	–	100,000
		0.82	1 July 2013 to 30 June 2014	–	100,000	–	–	100,000
		0.82	1 July 2014 to 30 June 2015	–	100,000	–	–	100,000
Wu Youjun (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	50,000	–	–	50,000
		0.82	1 July 2013 to 30 June 2014	–	50,000	–	–	50,000
		0.82	1 July 2014 to 30 June 2015	–	50,000	–	–	50,000
Zhu Hongwei (Director)	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	50,000	–	–	50,000
		0.82	1 July 2013 to 30 June 2014	–	50,000	–	–	50,000
		0.82	1 July 2014 to 30 June 2015	–	50,000	–	–	50,000
Employees	16 September 2011	1.43	16 September 2011 to 31 March 2013	2,750,000	–	–	2,750,000	–
		1.43	1 April 2013 to 31 March 2014	4,800,000	–	–	4,800,000	–
		1.43	1 April 2014 to 31 March 2015	6,550,000	–	–	6,550,000	–
	20 January 2012	0.82	20 January 2012 to 30 June 2013	–	4,790,000	–	–	4,790,000
		0.82	1 July 2013 to 30 June 2014	–	4,510,000	–	–	4,510,000
		0.82	1 July 2014 to 30 June 2015	–	4,550,000	–	–	4,550,000

Detail of the valuation of the options granted under the Share Option Scheme during the year are set at in note 36 to the consolidated financial statements

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 38 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the prospectus of the Company dated 24 May 2011.

One-off Connected Transactions

No one-off connected transactions occurred after the listing of the Company.

Continuing Connected Transactions

The following transactions fall under the de minimis provision set forth in Rule 14A.33 of the Listing Rules and is therefore exempt from reporting, announcement and independent shareholders' approval.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Leasing of Cars and Trucks

Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa Paper**"), a wholly-owned subsidiary of the Company and Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**"), a connected person of the Company by virtue of Rule 14A.11 of the Listing Rules, entered into the cars and trucks rental agreement dated 22 November 2010 made between Zhong Fa Equipment as lessor and Zhongshan Yong Fa Paper as lessee for a term of three years commencing from 1 January 2011 to 31 December 2013 at the monthly rates of RMB1,000 per car and RMB1,500 per truck payable monthly. The cars and trucks rental agreement can be terminated by mutual agreement between the parties by Zhongshan Yong Fa Paper giving not less than 30 days' written notice to Zhong Fa Equipment to that effect.

During the year, the rental fee of cars and trucks from Zhong Fa Equipment amounted to RMB198,000 (2011: RMB198,000).

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transaction between member of our Group constitute non-exempt continuing connected transaction of our Company under Rule 14A.33 of the Listing Rules by reason of any of the applicable percentage ratios (other than the profits ratio) being greater than 5% on an annual basis or the annual consideration being greater than HK$1,000,000.

Leasing of Premises

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**"), a wholly-owned subsidiary of the Company and Zhongshan City Zheng Ye (Group) Company Limited ("**Zheng Ye Group**"), a limited company established in the PRC and owned as to 51%, 25%, 20% and 4% by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, respectively, entered into three tenancy agreements made between Zheng Ye Group as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting of the premises as summarized below:

- Date and subject matter of each tenancy agreement:
  - Tenancy agreement dated 1 January 2010 (as supplemented by two tenancy supplemental agreements dated 30 June 2010 and 3 July 2010) (the "**First Tenancy Agreement**") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..
  - Tenancy agreement dated 28 September 2010 (the "**Second Tenancy Agreement**") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,824 sq.m..

— Tenancy agreement dated 28 September 2010 (the "**Third Tenancy Agreement**") in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

- Period:

— The First Tenancy Agreement: for an original term of one year from 1 January 2010 to 31 December 2010 which was extended for a further period of three years from the expiry of the original term to 31 December 2013 with a revised rental amount pursuant to the supplemental agreement dated 30 June 2010, with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

— The Second Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

— The Third Tenancy Agreement: for a term of three years from 1 October 2010 to 30 September 2013 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years by serving not less than 30 days' written notice on Zheng Ye Group at the then market rent.

- Monthly rental payable:

— The First Tenancy Agreement: RMB287,000.

— The Second Tenancy Agreement: RMB63,000.

— The Third Tenancy Agreement: RMB12,000.

— The monthly rent payable for the renewal term under each of the Tenancy Agreements will be the then market rent provided that any upward adjustment to the monthly rent will be subject to a cap of not more than 10% of the monthly rent payable immediately prior to the expiration of the original term.

- Rental deposit paid:

— The First Tenancy Agreement: RMB300,000.

— The Second Tenancy Agreement: RMB100,000.

— The Third Tenancy Agreement: RMB50,000.

During the year, the rental fee of the premises leased from Zheng Ye Group amounted to RMB4,344,000 (2011: RMB4,344,000).

The independent non-executive Directors have reviewed the above continuing connected transactions of the Company and have confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the board of Directors;

(ii) the above continuing connected transactions have been entered into in accordance with the terms of the agreements governing such transactions; and

(iii) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set at in the Corporate Governance Report of the annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2012.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review 48.99% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 26.59% of the Group's revenue for the year. 45.51% of the Group's total purchases was attributable to the Group's five largest supplier and purchases from the Group's largest supplier accounted for 22.20% of the Group is total purchases.

None of the Directors, their associates or shareholders, who to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in these major customers or suppliers.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company was listed on the Main Board of the Stock Exchange on 3 June 2011 by way of global offering as disclosed in the prospectus of the Company dated 24 May 2011 with net proceeds of approximately HK$134,400,000 (the "**Net Proceeds**") raised therefrom.

As at 31 December 2012 the Net Proceeds had been utilized in the following manner:

	Use and allocate of the Net Proceeds as original planned HK$'000	**Amount of the Net Proceeds utilized in the year ended 31 December 2012** HK$'000	**Amount of the Net Proceeds remains** HK$'000
Setting up the manufacturing factory in new product base in Hefei of the Anhui Province, the PRC	33,700	17,940	15,760
Setting up the manufacturing factory in new product base in Zhengzhou of the Henan Province, the PRC	26,800	20,264	6,536
Setting up the manufacturing factory in new product base in Wuhan of the Hubei Province, the PRC	13,500	12,532	968
Setting up the manufacturing factory in new product base in Shijiazhuang of the Hebei Province, the PRC	13,500	13,500	–
Upgrading our productive facility	24,200	24,200	–
Research and development	6,700	6,700	–
Upgrading our ERP system	2,700	855	1,845
General working capital	13,300	13,300	–
	134,400	109,291	25,109

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, no Directors of the Company or their respective associates (as defined in the Listing Rules) were considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses of which the Directors of the Company were appointed as Directors to represent the interests of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float during the year and up to the date of this report under the Listing Rule.

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the AGM.

By order of the Board

Hu Zheng
Chairman

Hong Kong, 22 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED
正業國際控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Zhengye International Holdings Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 35 to 79, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012 RMB'000**	2011 RMB'000
Revenue	5	**1,242,371**	1,163,803
Cost of sales		**(983,276)**	(948,474)
Gross profit		**259,095**	215,329
Other income	7	**11,576**	6,714
Other gains and losses	8	**129**	1,401
Distribution and selling expenses		**(50,606)**	(34,321)
Administrative and other expenses (included share-based payment expenses)		**(84,278)**	(62,719)
Listing expenses		**–**	(11,926)
Finance costs	9	**(38,466)**	(28,259)
Research and development cost		**(35,283)**	(27,343)
Profit before tax	11	**62,167**	58,876
Income tax expense	10	**(10,750)**	(12,436)
Profit and total comprehensive income for the year attributable to owners of the company		**51,417**	46,440
Earnings per share			
Basic (RMB)	15	**0.10**	0.10
Diluted (RMB)	15	**0.10**	0.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	31/12/2012 RMB'000	31/12/2011 RMB'000
Non-current Assets			
Property, plant and equipment	16	**553,146**	398,052
Prepaid lease payments	17	**66,315**	56,707
Other intangible assets	18	**5,171**	6,609
Deposits for acquisition of property, plant and equipment		**13,897**	18,022
Deposit for leasehold land		**28,800**	6,750
		667,329	486,140
Current Assets			
Inventories	19	**116,487**	112,933
Trade and other receivables	20	**685,188**	625,311
Prepaid lease payments	17	**1,592**	1,368
Pledged bank deposits	22	**206,338**	94,255
Restricted bank deposits	22	**415**	2,027
Bank balances and cash	22	**122,378**	130,692
Tax recoverable		**3,789**	–
		1,136,187	966,586
Current Liabilities			
Trade and other payables	23	**469,942**	418,847
Tax liabilities		**1,248**	2,986
Borrowings	26	**727,771**	499,227
Obligations under finance leases	24	**22,322**	13,169
Amounts due to directors	25	**2,048**	3,816
Amounts due to a related party	25	**50**	66
		1,223,381	938,111
Net Current (Liabilities) Assets		**(87,194)**	28,475
Total Assets Less Current Liabilities		**580,135**	514,615
Capital and Reserves			
Share capital	28	**41,655**	41,655
Share premium and reserves		**456,117**	429,132
Total Equity		**497,772**	470,787
Non-current Liabilities			
Deferred tax liabilities	27	**4,073**	5,932
Deferred income	29	**28,800**	–
Borrowings	26	**6,720**	–
Obligations under finance leases	24	**42,770**	37,896
		82,363	43,828
		580,135	514,615

The consolidated financial statements on pages 35 to 79 were approved and authorised for issue by the board of directors on 22 March 2013 and are signed on its behalf by:

Hu Zheng
Director

Hu Hancheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (note i)	Share options reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	17	–	60,624	–	(23,239)	252,384	289,786
Profit and total comprehensive income for the year	–	–	–	–	–	46,440	46,440
Transfer to statutory reserve	–	–	15,745	–	–	(15,745)	–
Arising from exchange of shares upon Group Reorganisation (note ii)	150	–	–	–	(150)	–	–
New issue of shares by way of public offering	10,414	138,503	–	–	–	–	148,917
Shares capitalisation	31,074	(31,074)	–	–	–	–	–
Transaction costs attributable to issue of shares	–	(14,461)	–	–	–	–	(14,461)
Recognition of equity-settled share-based payments	–	–	–	105	–	–	105
At 31 December 2011	41,655	92,968	76,369	105	(23,389)	283,079	470,787
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**51,417**	**51,417**
Transfer to statutory reserve	**–**	**–**	**6,574**	**–**	**–**	**(6,574)**	**–**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**3,368**	**–**	**–**	**3,368**
Dividends payment	**–**	**–**	**–**	**–**	**–**	**(27,800)**	**(27,800)**
At 31 December 2012	**41,655**	**92,968**	**82,943**	**3,473**	**(23,389)**	**300,122**	**497,772**

Notes:

(i) In accordance with the relevant laws and regulations of the Peoples' Republic of China (the "**PRC**"), the subsidiaries established in the PRC are required to provide for PRC statutory reserves, by way of appropriations from their respective statutory net profit (based on the 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) The amount represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation (the "**Group Reorganisation**").

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**62,167**	58,876
Adjustments for:		
Finance costs	**38,466**	28,259
Interest income	**(4,274)**	(1,652)
Depreciation of property, plant and equipment	**28,281**	22,758
Amortisation of prepaid lease payments	**1,368**	1,368
Amortisation of other intangible assets	**1,438**	112
Share-based payment expense	**3,368**	105
Loss on disposal of property, plant and equipment	**74**	5
Operating cash flows before movements in working capital	**130,888**	109,831
Increase in inventories	**(3,554)**	(9,132)
Increase in trade and other receivables	**(59,877)**	(69,638)
Decrease (increase) in discounted bills receivables	**(7,420)**	6,477
Increase in trade and other payables	**54,549**	12,963
(Decrease) Increase in amounts due to directors	**(1,768)**	3,816
Decrease in amounts due to related parties	**(16)**	(1,544)
Placement of restricted bank deposits	**–**	(2,027)
Withdrawal of restricted bank deposits	**2,027**	–
Receipt of government grant	**5,000**	–
Cash generated from operations	**119,829**	50,746
Income Tax paid	**(18,136)**	(7,977)
NET CASH FROM OPERATING ACTIVITIES	**101,693**	42,769
INVESTING ACTIVITIES		
Interest received	**4,274**	1,652
Proceeds on disposal of property, plant and equipment	**1,580**	460
Purchase of property, plant and equipment	**(136,473)**	(81,462)
Deposits paid for acquisition of property, plant and equipment	**(13,897)**	(16,855)
Deposit paid for leasehold land	**(28,800)**	–
Placement of pledged bank deposits	**(1,208,000)**	(530,202)
Placement of restricted bank deposits	**(415)**	–
Withdrawal of pledged bank deposits	**1,095,917**	534,186
Receipt of government grant	**23,800**	–
Development costs paid	**–**	(6,721)
NET CASH USED IN INVESTING ACTIVITIES	**(262,014)**	(98,942)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(43,001)**	(27,992)
Dividends paid	**(27,800)**	–
Repayment of borrowings	**(699,268)**	(606,656)
Repayments of obligations under finance leases	**(19,876)**	(5,732)
New bank borrowings raised	**941,952**	661,317
Proceeds from issue of shares	**–**	148,917
Expenses on issue of shares	**–**	(14,461)
NET CASH FROM FINANCING ACTIVITIES	**152,007**	155,393
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,314)**	99,220
CASH AND CASH EQUIVALENTS		
AT 1 January	**130,692**	31,472
CASH AND CASH EQUIVALENTS		
AT 31 December		
represented by Bank balances and cash	**122,378**	130,692

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located in the PRC.

The Company acts as an investment holding company. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who collectively own 75% of the Company's share in aggregate and act in concert, are regarded as the controlling shareholders of the Company.

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

Pursuant to the Group Reorganisation in preparation for the Listing, the Company became the holding company of TYAZ International Limited and its subsidiaries on 4 March 2011 upon completion of the Group Reorganisation. Details of the Group Reorganisation are 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 Group resulting from the Group Reorganisation is considered as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2011 of the Group have been prepared using the principles of merger accounting which are consistent with the principles as stated in Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by Hong Kong institute of Certified Public Accountants (the "HKICPA") as if the Group structure as at date of Group Reorganisation had been in existence throughout the year ended 31 December 2011 or since the respective dates of incorporation or establishment, whichever is the shorter period.

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the "functional currency").

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of RMB87,194,000 as at 31 December 2012. On the basis that the Group has secured credit facilities of approximately RMB569,405,000 which remains unutilised at the date of the consolidated financial statements ended 31 December 2012, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has applied for the first time the amendments to HKFRS 7 Disclosures — Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain bills receivable. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the bills receivable are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 26).

In addition, the Group endorsed certain bills receivable to suppliers to exchange for goods and services from those suppliers. The contractual rights to receive cash flows from those bills receivables were transferred to the respective suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the receivables and the associated trade payables.

The relevant disclosures have been made regarding the transfer of these bill receivables on application of the amendments to HKFRS 7 (see note 21). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 — 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 is effective for the Group's annual period beginning on 1 January 2015, with earlier application permitted. The directors of the Company anticipate the adoption of HKFRS 9 in the future will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the financial instruments as at 31 December 2012.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 also require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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

Merger accounting for business combination under common control

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

The consolidated statement of comprehensive income includes 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, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the earliest date presented or when they first came under common control, whichever is shorter.

Revenue recognition

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

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

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 assets is deferred and amortised over the lease term.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

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

Taxation

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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 generally classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, restricted 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 of financial assets below).

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Derecognition

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and directors

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to other reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Cancellation of share-based payment

When a grant of share options is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the Group accounts for the cancellation or settlement as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

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. At 31 December 2012, the carrying amounts of property, plant and equipment are RMB553,146,000 (2011:RMB398,052,000).

Estimated impairment of other intangible assets

Determining whether other intangible assets are impaired requires an estimation of the recoverable amounts of the cash-generating units to which other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31 December 2012, the carrying amounts of intangible assets are RMB5,171,000 (2011: RMB6,609,000).

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 31 December 2012, the carrying amounts of trade receivables are RMB378,529,000 (2011: RMB302,287,000).

5. REVENUE

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

For the year ended 31 December 2012

6. SEGMENT INFORMATION

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

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

The Group is organised into business units based on their products 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:

1. Paper-based packaging: this segment produces and sells paper-based packaging products.

2. Corrugated medium paper: this segment produces and sells corrugated medium paper.

(a) Segment revenue and results

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

For the year ended 31 December 2012

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	722,241	520,130	1,242,371
Inter-segment sales	–	93,061	93,061
Segment revenue	722,241	613,191	1,335,432
Eliminations			(93,061)
Group Revenue			1,242,371
Segment Profit	25,101	43,045	68,146
Eliminations			(308)
			67,838
Unallocated corporate expenses, net			(5,671)
Profit before tax			62,167

For the year ended 31 December 2012

6. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results (Continued)

For the year ended 31 December 2011

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	643,911	519,892	1,163,803
Inter-segment sales	–	120,596	120,596
Segment revenue	643,911	640,488	1,284,399
Eliminations			(120,596)
Group Revenue			1,163,803
Segment Profit	33,931	46,622	80,553
Eliminations			(738)
			79,815
Unallocated corporate expenses, net			(20,939)
Profit before tax			58,876

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represented the profit earned by each segment without allocation of legal and professional fee, bank interest income and other corporate income and expenses.

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

(b) Geographic information

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

(c) Information about major customers

Revenue from customers of the corresponding years over 10% of the total revenue of the Group is as follows:

	2012 RMB'000	2011 RMB'000
Customer A[1]	**330,339**	279,962

[1] Revenue from paper-based packaging

(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.

For the year ended 31 December 2012

7. OTHER INCOME

	2012 RMB'000	2011 RMB'000
Interest income	**4,274**	1,652
Management fee income	**810**	197
Sales of scrap materials	**36**	14
Government grants (note)	**6,400**	4,851
Sundry income	**56**	–
Total	**11,576**	6,714

Note: Government grants received by the Group's PRC subsidiaries as financial incentives for local economic and environmental development contributions. No other conditions are attached to the financial incentive.

8. OTHER GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Exchange gain, net	**203**	1,406
Loss on disposals of property, plant and equipment	**(74)**	(5)
	129	1,401

9. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**36,934**	26,926
Finance leases	**5,603**	1,610
Total borrowing costs	**42,537**	28,536
Less: Amounts capitalised in the cost of qualifying assets	**(4,071)**	(277)
	38,466	28,259

Borrowing costs capitalised during the year arose on the finance leases and are calculated by applying a capitalisation rate of 10.33% (2011:9.67%) per annum to expenditure on qualifying assets.

For the year ended 31 December 2012

10. INCOME TAX EXPENSE

	2012 **RMB'000**	2011 RMB'000
Current tax:		
PRC Enterprise Income Tax	**9,409**	8,411
Withholding Tax	**3,200**	–
Deferred tax (note 27):		
Current year	**(1,859)**	4,025
	10,750	12,436

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

Under the Law of The People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to 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 entitled to 2-year income tax exemption commencing from their first profit-making year, and a 50% relief for the following three years ("Certain Conditions 1"). This policy was still in effect when the income tax rate unified on 1 January 2008 if an enterprise was in the process of this transition stage on 1 January 2008.

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").

Zheng Ye Packaging (Zhongshan) Company Limited (Zheng Ye Packaging (Zhongshan)) and Zhongshan Yong Fa Paper Industry Company Limited (Zhongshan Yong Fa Paper) obtained the Certificate of High-Technology in 2009 for three years and the applicable income tax rate was 15% in 2011 based on Certain Conditions 2. In 2012, Zheng Ye Packing (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2015.

According to document (Zhongshanguoshuipuzi [2009] 001) issued by Dongsheng District Office of Zhongshan Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhongshan Zheng Ye Alliance Packaging Company Limited (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, 2011 and 2012.

According to document (Zhudouguoshuihan [2008] 51) issued by Dongmen District Office of Zhuhai Municipal Office, State Administration of Taxation, and Certain Conditions 1, Zhuhai Zheng Ye Packaging Company Limited (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, 2011 and 2012.

10. INCOME TAX EXPENSE (Continued)

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

	2012 RMB'000	2011 RMB'000
Profit before tax	**62,167**	58,876
PRC Enterprise Income Tax at 25% (2011: 25%)	**15,542**	14,719
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(1,280)**	(1,478)
Tax effect of expenses not deductible for tax purpose	**1,601**	3,831
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	**(8,394)**	(8,088)
Tax effect of tax losses not recognised	**1,832**	735
Utilization of deductible temporary differences previously not recognised	**(51)**	(445)
Withholding tax on undistributed profits of PRC subsidiaries	**1,500**	3,200
Others	**–**	(38)
Tax charge for the year	**10,750**	12,436

Note: In accordance with 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 2012 of PRC subsidiaries of the Company, which are available for distribution amounted to RMB15,000,000 (2011: RMB32,000,000).

11. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Depreciation of property, plant and equipment	**28,281**	22,758
Amortisation of other intangible assets	**1,438**	112
Amortisation of prepaid lease payments	**1,368**	1,368
Total depreciation and amortisation	**31,087**	24,238
Auditor's remuneration	**1,846**	1,571
Operating lease rental in respect of		
— plant and machineries	**9,346**	–
— premises	**10,134**	9,795
— vehicles	**236**	198
Staff costs		
— directors' emoluments	**10,909**	6,469
— salaries and other benefits costs	**135,607**	118,198
— retirement benefits scheme contribution	**4,996**	4,420
— share-based payment	**1,541**	–
Total staff costs	**153,053**	129,087
Less: Amount capitalised in construction in progress	**(3,010)**	(3,726)
Amount capitalised in intangible assets	**–**	(689)
	150,043	124,672

For the year ended 31 December 2012

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 directors (2011: 7) and the chief executive were as follows:

	Salary RMB'000	Bonus (note1) RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2012					
Hu Zheng	**2,500**	**–**	**56**	**10**	**2,566**
Hu Hanchao	**2,200**	**–**	**56**	**10**	**2,266**
Hu Hancheng	**2,200**	**–**	**56**	**8**	**2,264**
Hu Hanxiang	**360**	**–**	**45**	**–**	**405**
Wu Youjun	**85**	**–**	**17**	**–**	**102**
Zhu Hongwei	**85**	**–**	**17**	**–**	**102**
Chung Kwok Mo John	**122**	**–**	**34**	**–**	**156**
Yin Wenxin (note 2)	**1,200**	**–**	**279**	**12**	**1,491**
Chen Weixin (note 2)	**1,200**	**66**	**279**	**12**	**1,557**
	9,952	**66**	**839**	**52**	**10,909**

Note:

1. The performance bonus is determined based on a percentage of production volume in corrugated medium paper for the year ended 31 December 2012.

2. Mr. Yin Wenxin and Mr. Chen Weixin are appointed as directors from 1 September 2012, and their emolument disclosed above include those for services rendered by them as the senior management and the director.

	Salary RMB'000	Bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2011				
Hu Zheng	2,126	–	10	2,136
Hu Hanchao	1,879	–	10	1,889
Hu Hancheng	1,879	–	8	1,887
Hu Hanxiang	314	–	–	314
Wu Youjun	70	–	–	70
Zhu Hongwei	70	–	–	70
Chung Kwok Mo John	103	–	–	103
	6,441	–	28	6,469

Mr. Hu Hancheng is also the Chief Executive of the Company and his emolument disclosed above include those for services rendered by him as the Chief Executive.

No directors waived any emoluments in the year ended 31 December 2012 and 2011.

For the year ended 31 December 2012

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, all (2011: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emolument of the remaining two individuals for year ended 31 December 2011 (2012: nil) was as follows:

	2012 RMB'000	2011 RMB'000
Salary	–	260
Bonus	–	–
Retirement benefits scheme contribution	–	7
	–	267

Emolument of the two individuals for the year ended 31 December 2011 were within nil to HK$1,000,000 (equivalent to RMB810,000).

14. DIVIDENDS

	2012 RMB'000	2011 RMB'000
2011 final dividends — RMB2.78 cents per share	**13,900**	–
2011 special dividends — RMB2.78 cents per share	**13,900**	–
	27,800	–

Subsequent to the end of the reporting period, a final dividend of RMB3.08 cents per share in respect of the year end of 31 December 2012 per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

The final dividend of RMB2.78 cents per share and a special dividend of RMB2.78 cents per share in respect of the year ended 31 December 2011, was approved by shareholders in the annual general meeting on 1 June 2012 and paid to the owners of the Company during the year.

15. EARNINGS PER SHARE

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

	2012 RMB'000	2011 RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**51,417**	46,440
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**500,000,000**	447,602,740

The computation of diluted earnings per share for the year ended 31 December 2012 and 2011 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for 2012 and 2011.

For the year ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture and fixtures	Motor vehicles	Plant and machinery	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011	100,032	–	5,388	6,387	246,358	14,538	372,703
Additions	1,809	2,097	1,762	4,463	8,974	118,100	137,205
Disposals	(91)	–	(47)	–	(754)	–	(892)
Transfer from construction in progress	3,301	–	6	–	44,031	(47,338)	–
At 31 December 2011	105,051	2,097	7,109	10,850	298,609	85,300	509,016
Additions	965	216	3,695	4,948	8,935	166,270	185,029
Disposals	–	–	(35)	(200)	(2,308)	–	(2,543)
Transfer from construction in progress	7,953	109	5,264	–	127,268	(140,594)	–
At 31 December 2012	113,969	2,422	16,033	15,598	432,504	110,976	691,502
DEPRECIATION							
At 1 January 2011	28,111	–	2,471	3,395	54,656	–	88,633
Provided for the year	4,969	275	1,019	990	15,505	–	22,758
Eliminated on disposal	(80)	–	(13)	–	(334)	–	(427)
At 31 December 2011	33,000	275	3,477	4,385	69,827	–	110,964
Provided for the year	4,542	738	2,115	1,782	19,104	–	28,281
Eliminated on disposals	–	–	(15)	(181)	(693)	–	(889)
At 31 December 2012	37,542	1,013	5,577	5,986	88,238	–	138,356
CARRYING VALUES							
At 31 December 2012	76,427	1,409	10,456	9,612	344,266	110,976	553,146
At 31 December 2011	72,051	1,822	3,632	6,465	228,782	85,300	398,052

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

Buildings	4.50%–18%
Leasehold improvements	20%–50%
Furniture and fixtures	11.25%–18%
Motor vehicles	18%
Plant and machinery	4.50%–18%

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

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Plant and machinery with carrying value of RMB32,120,000 (31 December 2011: RMB8,145,000) are held under finance lease.

Plant and machinery with carrying value of RMB629,000 at 31 December 2011 were held under a sales and lease back agreement, which had been fully repaid during 2012.

Construction in progress with carrying value of RMB50,248,000 (31 December 2011: RMB39,756,000) is in respect of assets held under finance lease.

Details of property, plant and equipment pledged are set out in note 33.

17. PREPAID LEASE PAYMENTS

	31/12/2012 RMB'000	31/12/2011 RMB'000
Analysed for reporting purposes as:		
Current asset	**1,592**	1,368
Non-current asset	**66,315**	56,707
	67,907	58,075
Leasehold land in the PRC		
Medium term lease	**67,907**	58,075

Details of land use rights pledged are set out in note 33.

18. OTHER INTANGIBLE ASSETS

	Development costs RMB'000
COST	
At 1 January 2011	–
Additions	6,721
At 31 December 2011,1 January 2012 and 31 December 2012	6,721
AMORTISATION	
At 1 January 2011	–
Charge for the year	112
At 31 December 2011	112
Charge for the year	1,438
At 31 December 2012	1,550
CARRYING VALUES	
At 31 December 2012	5,171
At 31 December 2011	6,609

Development costs are internally generated.

The above intangible asset has finite useful lives. Such intangible asset is amortised on a straight-line basis over 5 years.

For the year ended 31 December 2012

19. INVENTORIES

	31/12/2012 RMB'000	31/12/2011 RMB'000
Raw material and consumables	**87,470**	84,898
Work in progress	**6,263**	5,285
Finished goods	**22,754**	22,750
	116,487	112,933

Details of inventories pledged are set out in note 33.

20. TRADE AND OTHER RECEIVABLES

	31/12/2012 RMB'000	31/12/2011 RMB'000
Trade receivables	**378,529**	302,287
Less: allowance for doubtful debts	**–**	–
	378,529	302,287
Advances to suppliers	**5,348**	3,443
Bills receivables	**273,988**	300,280
Prepayment	**7,734**	4,676
Other receivables	**19,589**	14,625
	301,311	319,581
Total trade and other receivables	**685,188**	625,311

The Group allows an average 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. For those major customers with a good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank.

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

	31/12/2012 RMB'000	31/12/2011 RMB'000
0–60 days	**307,456**	241,120
61–90 days	**37,936**	32,702
91–180 days	**33,086**	28,213
Over 180 days	**51**	252
	378,529	302,287

20. TRADE AND OTHER RECEIVABLES (Continued)

The aged analysis of bills receivables based on the invoice date at the end of the reporting period are analysed as follows:

	31/12/2012 RMB'000	31/12/2011 RMB'000
0–60 days	**62,635**	125,207
61–90 days	**36,017**	73,330
91–180 days	**166,521**	74,140
Over 180 days	**8,815**	27,603
Total	**273,988**	300,280

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 RMB12,256,000 (31 December 2011: RMB8,088,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable as there are significant subsequent settlements after year end. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	31/12/2012 RMB'000	31/12/2011 RMB'000
0–30 days	**8,816**	1,678
31–60 days	**3,073**	6,155
61–90 days	**303**	–
Over 90 days	**64**	255
Total	**12,256**	8,088

Movement in the allowance for doubtful debts

	2012 RMB'000	2011 RMB'000
1 January	**–**	1,219
Amounts written off as uncollectible	**–**	(1,219)
31 December	**–**	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired have good repayment histories and no impairment is considered necessary.

Details of trade receivables and bills receivables pledged as set out in note 33.

During the year ended 31 December 2012, the Group discounted bills receivable with recourse in aggregated amounts of RMB121,158,000 (2011: RMB57,463,000) to banks for short term financing of which the associated borrowings amounted to RMB118,213,000 (2011: 56,206,000) and the relevant cash flows are presented as operating cash flows in the consolidated statement of cash flows for the year then ended as the management considers the cash flows are, in substance, the receipts from trade debtors.

For the year ended 31 December 2012

21. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's bills receivables as at 31 December 2012 that were transferred to banks or suppliers by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the related trade payables and has recognised the cash received from banks on the transfer as a secured borrowing (see note 26).

These bills receivables are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2012

	Bills receivable discounted to banks with full recourse RMB'000	**Bills receivable endorsed to suppliers with full recourse** RMB'000	**Total** RMB'000
Carrying amount of bills receivables	**25,227**	**168,937**	**194,164**
Carrying amount of trade payables	–	**(168,937)**	**(168,937)**
Carrying amount of bank loans	**(24,697)**	–	**(24,697)**

22. PLEDGED BANK DEPOSITS, RESTRICTED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB206,338,000 (31 December 2011: RMB94,255,000) have been pledged to bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets.

Deposits restricted for the use of designated construction projects and import duties to local customs as at 31 December 2012 and 2011 respectively.

Bank balances carry interest at market rates within range from 0.01% to 0.35% (2011: 0.01% to 0.50%) per annum. The pledged deposits carry interest rates which range from 0.35% to 3.30% (2011: 0.01% to 3.23%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

23. TRADE AND OTHER PAYABLES

	31/12/2012 **RMB'000**	31/12/2011 RMB'000
Trade payables	**279,167**	285,678
Bills payables — secured	**115,354**	65,740
Other tax payables (note)	**32,082**	24,564
Payroll and welfare payables	**23,800**	17,380
Construction payables	**12,786**	15,776
Others	**6,753**	9,709
	469,942	418,847

Note: Included in other tax payables is RMB30,107,000 (31 December 2011: RMB22,433,000) provision of value-added Tax.

For the year ended 31 December 2012

23. TRADE AND OTHER PAYABLES (Continued)

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

	31/12/2012 RMB'000	31/12/2011 RMB'000
0–60 days	**128,374**	173,619
61–90 days	**97,583**	20,352
91–180 days	**48,762**	87,296
Over 180 days	**4,448**	4,411
	279,167	285,678

The aged analysis of bills payables based on the invoice date at the end of the reporting period are analysed as follows:

	31/12/2012 RMB'000	31/12/2011 RMB'000
0–60 days	**48,701**	23,519
61–90 days	**26,455**	9,930
91–180 days	**40,198**	32,291
	115,354	65,740

The 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.

24. OBLIGATIONS UNDER FINANCE LEASES

	31/12/2012 RMB'000	31/12/2011 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**22,322**	13,169
Non-current liabilities	**42,770**	37,896
	65,092	51,065

The Group has leased certain of its plant and machinery and construction in progress under finance leases. The lease term is 20 years (2011: 20 years). Interest rates underlying all obligations under finance leases are fixed at an average 9.18% (2011: 9.00%) per annum at contract dates.

The Group leased certain of its manufacturing equipment under a sales and lease back agreement in 2010. 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 and the amount had been fully repaid during 2012. 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 16.

24. OBLIGATIONS UNDER FINANCE LEASES (Continued)

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2012 RMB'000	31/12/2011 RMB'000	**31/12/2012 RMB'000**	31/12/2011 RMB'000
Amounts payable under finance leases				
Within one year	**27,685**	17,099	**22,322**	13,169
In more than one year but not more than five years	**39,862**	35,801	**34,878**	29,728
More than five years	**10,733**	11,584	**7,892**	8,168
	78,280	64,484	**65,092**	51,065
Less: future finance charges	**(13,188)**	(13,419)	**N/A**	N/A
Present value of lease obligations	**65,092**	51,065	**65,092**	51,065
Less: Amounts due for settlement within 12 months (shown under current liabilities)			**(22,322)**	(13,169)
Amounts due for settlement after 12 months			**42,770**	37,896

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

25. AMOUNTS DUE TO DIRECTORS/A RELATED PARTY

The amounts as at 31 December 2012 and 2011 are non-trade related, unsecured, interest free and repayable on demand.

The amount due to a related party represents the rental payable to a company controlled by the controlling shareholders of the company.

26. BORROWINGS

	31/12/2012 RMB'000	31/12/2011 RMB'000
Bank loans, secured	**734,491**	499,227
Carrying amount repayable:		
Within one year	**706,243**	496,949
More than one year but not more than two years	**6,720**	–
	712,963	496,949
Carrying amount of bank loans that are repayable within one year from the end of the reporting period and contain a repayable on demand clause (shown under current liabilities)	**21,528**	2,278
	734,491	499,227
Less: Amount due within one year shown under current liabilities	**(727,771)**	(499,227)
Amounts shown under non-current liabilities	**6,720**	–

As at 31 December 2012, bank borrowings of RMB24,697,000 (2011: RMB32,117,000) are secured by bills receivables discounted to the banks with full recourse.

For the year ended 31 December 2012

26. BORROWINGS (Continued)

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

	31/12/2012 RMB'000	31/12/2011 RMB'000
RMB	**680,421**	479,639
USD	**42,095**	17,310
HKD	**11,975**	2,278
	734,491	499,227

Bank borrowings as at year end were secured by the pledge of assets as set out in note 33.

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

	31/12/2012	31/12/2011
Effective interest rate:		
Fixed rate borrowings	**3.97% to 6.56% per annum**	3.17% to 8.55% per annum
Variable rate borrowings	**benchmark rate per annum**	benchmark rate per annum

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

27. DEFERRED TAX LIABILITIES

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

	Depreciation differences RMB'000	**Undistributed profit of a subsidiary** RMB'000	**Total** RMB'000
At 1 January 2011	1,907	–	1,907
Charge for the year	825	3,200	4,025
At 31 December 2011	2,732	3,200	5,932
Reversal of deferred tax liabilities upon distribution of profits	—	(3,200)	(3,200)
(Credit) Charge for the year	(159)	1,500	1,341
At 31 December 2012	**2,573**	**1,500**	**4,073**

At the end of the reporting period, the Group has unused tax losses of RMB10,268,000 (31 December 2011: RMB2,940,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised losses in 2012 and 2011 will be expired in 2017 and 2016 respectively.

For the year ended 31 December 2012

27. DEFERRED TAX LIABILITIES (Continued)

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 PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB231,926,000 (31 December 2011: RMB168,031,000).

No deferred tax liabilities have been recognised in respect of these difference because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

28. SHARE CAPITAL

		Number of shares	**Nominal value** HK$
Ordinary shares of HK$0.10 each			
Authorised:			
At 1 January 2011	(i)	2,000,000	200,000
On 4 March 2011	(ii)	998,000,000	99,800,000
At 31 December 2011, 1 January 2012 and 31 December 2012		1,000,000,000	100,000,000
Issued and fully paid:			
At 1 January 2011	(i)	1	–
Issue of shares	(iii)	1,999,999	200,000
Shares capitalisation	(iv)	373,000,000	37,300,000
New issue of shares by way of public offering	(v)	125,000,000	12,500,000
At 31 December 2011, 1 January 2012 and 31 December 2012		500,000,000	50,000,000

	RMB'000
Presented as (At 31 December 2011 and 31 December 2012)	41,655

Notes:

(i) 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 a par value of HK$0.10 each. On 1 September 2010, one share was allotted and issued, nil paid, to Mr. Hu Zheng.

(ii) On 4 March 2011, the authorised share capital of the Company was increased from HK$200,000 divided into 2,000,000 shares of a par value of HK$0.10 each to HK$100,000,000 divided into 1,000,000,000 shares with a par value of HK$0.10 each, by the creation of 998,000,000 ordinary shares with a par value of HK$0.10 each.

(iii) On 4 March 2011, the Company issued 1,999,999 ordinary shares of HK$0.10 each pursuant to the Group Reorganisation in exchange for the entire issued share capital of TYAZ International Limited and became the ultimate holding company of the Group.

(iv) Pursuant to written resolutions on 19 May 2011, the Directors resolved to capitalise HK$37,300,000 (RMB31,074,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 373,000,000 Shares as a result of Global Offering (as defined in the "Prospectus").

(v) In connection with the Company's initial public offering, 125,000,000 Shares of HK$0.10 each were issued at a price of HK$1.43 for a total cash consideration, before expenses, of approximately HK$178,750,000 (equivalent to RMB148,917,000). Dealings in the Shares on the Main Board of the Stock Exchange commenced on 3 June 2011.

All the shares issued during the period from 18 August 2010 (date of incorporation) to 31 December 2011 ranked pari passu in all respects with the then existing shares.

For the year ended 31 December 2012

29. DEFERRED INCOME

Government grant of RMB5,000,000 has been received in the current period towards the pre-operation of Hubei Yong Fa Paper. At as 31 December 2012, the related costs for which the grant is intended to compensate have not been incurred, the amount has been treated as deferred income and are not recognised in profit or loss in the current period.

In 2012, the Group also received a government subsidy of RMB23,800,000 towards the cost of construction of its corrugated medium paper plant. The amount has been treated as deferred income. The amount will be transferred to income over the useful lives of the relevant assets.

30. 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 Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes bank borrowings as disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves and retained earnings.

The directors of the Company review the capital structure periodically. As part of the review, the directors consider the cost of capital and the risks associates with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of the new debt or the redemption of existing debt.

31. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	31/12/2012 RMB'000	31/12/2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,001,237**	844,166
Financial liabilities (excluded obligations under finance leases)		
Amortised cost	**1,174,448**	897,392

b. Financial risk management objectives and policies

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

Market risk

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

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

For the year ended 31 December 2012

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk

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

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

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

	31/12/2012 RMB'000	31/12/2011 RMB'000
Assets		
USD	**1,290**	4,322
HKD	**13,095**	5,877
Liabilities		
USD	**56,829**	50,437
HKD	**24,854**	15,767

Sensitivity analysis

The Group mainly exposes to the currency of United States ("USD") and the currency of Hong Kong ("HKD").

The following table details the Group's sensitivity to a 10% (2011: 10%) increase and decrease in RMB against the relevant foreign currencies. 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. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2011: 10%) change in foreign currency rates. The sensitivity analysis includes banking borrowings as well as bank balances denominated in currencies. A positive number below indicates an increase in post-tax profit where the RMB strengthens 10% (2011:10%) against the relevant currency. For a 10% weakening of RMB against the relevant currency, they would be an equal and opposite impact on the profit.

	2012 RMB'000	2011 RMB'000
USD		
Profit or loss	**4,721**	3,920
HKD		
Profit or loss	**999**	840

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank 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 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.

Sensitivity analysis

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

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2011: 50 basis points) increase or decrease for variable bank borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates in respect of bank borrowings.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variable were held constant, the Group's: post-tax profit for the year ended 31 December 2012 would decrease/increase by RMB1,050,136 (2011: RMB1,083,000).

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

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

The Group has concentration of credit risk as 30% (2011: 39%) of total trade receivables represented amounts due from the Group's largest three (2011: three) trade debtors for the year ended 31 December 2012. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

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

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

For the year ended 31 December 2012

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2012, the Group has available unutilised banking facilities of approximately RMB569,405,000 (2011: RMB197,201,000).

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

Liquidity table

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2012							
Non-derivative financial liabilities							
Trade and other payables	**N/A**	**437,860**	–	–	–	**437,860**	**437,860**
Amounts due to directors	**N/A**	**2,048**	–	–	–	**2,048**	**2,048**
Amounts due to related parties	**N/A**	**50**	–	–	–	**50**	**50**
Bank borrowings							
— fixed rate	**5.71**	**398,623**	**94,330**	–	–	**492,953**	**487,400**
— variable interest rate	**5.41**	**109,710**	**143,636**	**7,005**	–	**260,351**	**247,091**
Obligations under finance leases	**9.18**	**13,842**	**13,843**	**39,862**	**10,733**	**78,280**	**65,092**
		962,133	**251,809**	**46,867**	**10,733**	**1,271,542**	**1,239,541**
2011							
Non-derivative financial liabilities							
Trade and other payables	N/A	393,898	385	–	–	394,283	394,283
Amounts due to directors	N/A	3,816	–	–	–	3,816	3,816
Amounts due to related parties	N/A	66	–	–	–	66	66
Bank borrowings							
— fixed rate	7.01	236,498	10,213	–	–	246,711	244,427
— variable interest rate	6.73	209,015	56,451	–	–	265,466	254,800
Obligations under finance leases	9.00	7,993	9,106	35,801	11,584	64,484	51,065
		851,286	76,155	35,801	11,584	974,826	948,457

For the year ended 31 December 2012

31. FINANCIAL INSTRUMENTS (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Bank loans with a repayment on demand clause are included in the "on demand or less than 6 months" time band in the above maturity analysis. As at 31 December 2012 and 31 December 2011, the aggregate carrying amounts of these bank loans amounted to RMB21,528,000 and RMB2,278,000 respectively. Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in full 4 months (2011: 2 months) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB21,669,000 (2011: RMB2,291,000).

The amounts included above for variable interest rate instrument for non-derivative financial liabilities is subject to change if changes in variable interest rates defer to those estimates of interest rates determined at the end of the reporting period.

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.

32. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB33,903,000 (2011: RMB39,922,000).

33. 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:

	31/12/2012 RMB'000	31/12/2011 RMB'000
Buildings and construction in progress	**43,555**	46,730
Plant and machinery	**101,267**	122,481
Land use right	**56,707**	58,075
Trade receivables	**93,280**	138,559
Bills receivables	**56,012**	44,500
Pledged bank deposits	**206,338**	94,255
Inventories	**80,000**	101,395
	637,159	605,995

In addition, bank borrowings of RMB24,697,000 (2011: RMB32,117,000) are secured by bills receivables discounted to the banks with full recourse.

34. OPERATING LEASES

The Group as lessee

Minimum lease payments under operating leases during the year:

	31/12/2012 RMB'000	31/12/2011 RMB'000
Plant and machineries	**9,346**	–
Premises	**10,134**	9,795
Vehicles	**236**	198
	19,716	9,993

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2012 RMB'000	31/12/2011 RMB'000
Within one year	**16,626**	11,949
In the second to fifth year inclusive	**34,845**	14,203
After five years	**20,118**	6,309
	71,589	32,461

Operating lease payments represent rentals payable by the Group for certain of its premises and plant, equipment and vehicles. Leases are negotiated for an average term of 5.36 years. Rentals are fixed at the date of signing of lease agreements.

35. CAPITAL COMMITMENTS

	31/12/2012 RMB'000	31/12/2011 RMB'000
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**62,216**	64,460

For the year ended 31 December 2012

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company has granted certain Share Options (the "Old Options") to subscribe for shares of HK$0.10 each in the capital of the Company (the "Shares") to certain eligible employees of the Company and its subsidiaries (the "Group") under the Share Option Scheme of the Company adopted on 3 June 2011. Due to the significant drop in the price of Shares resulting from the downturn of the global market, the Old Options no longer served as effective incentives for such employees as the exercise price of these Share Options were much higher than the market price of the Shares. Therefore, on 20 January 2012 the Company cancelled the outstanding Old Options previously granted to the employees to subscribe for a total of 14,100,000 Shares at an exercise price of HK$1.43 per Share with vesting period from 16 September 2011 to 31 March 2015 (both days inclusive). In consideration of the employees irrevocably and unconditionally agreed to the cancellation of the Old Options, the Company paid HK$1.00 each to the relevant holders of the Old Options. Furthermore, no compensation or any consequential loss has been payable to the relevant holders of the Old Options as a result of such cancellation and there was not any adverse finance effect on the Company as a result of the cancellation of the Old Options.

Pursuant to a resolution passed on 20 January 2012, the Company offered to grant new Share Options (the "New Options") which entitle the holders thereof to subscribe for a total of 21,350,000 Shares of the Company to the directors and employees of the Group subject to acceptance of the grantees (the "Grantees"), under the Share Option Scheme, which the New Options would expire on 30 June 2015.

Details of specific categories of options as follows:

Category of Grantee	Date of grant	Vesting period	Exercise period	Exercise Price HKD
Employees	16/9/2011	None 16/09/2011 — 31/03/2013 16/09/2011 — 31/03/2014	16/09/2011 — 31/03/2013 01/04/2013 — 31/03/2014 01/04/2014 — 31/03/2015	1.43
Employees and directors	20/01/2012	None 20/01/2012 — 30/06/2013 20/01/2012 — 30/06/2014	20/01/2012 — 30/06/2013 01/07/2013 — 30/06/2014 01/07/2014 — 30/06/2015	0.82

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

	Number of share options
Outstanding as at 1 January 2012 (Old Options)	14,100,000
Granted during the year (New Options)	21,350,000
Cancelled during the year (Old Options)	(14,100,000)
Outstanding as at 31 December 2012 (New Options)	21,350,000

There is no share options exercised or expired during the period ended 31 December 2012.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

In the current year, the New Options were granted on 20 January 2012. The fair values of the New Options determined at the date of grant using the Binomial model were HK$4,761,000.

The Old Options were granted to five senior management only whilst the New Options were granted to 14 senior management and 9 directors (formerly 16 senior management and 7 directors as on 1 September 2012, 2 senior management appointed as directors). The number of New Options granted to the grantees of the Old options varied significantly and disproportionately. Accordingly, the directors of the Company considered the Old Options as cancellation and accounted for as an acceleration of vesting. The amount that would otherwise have been recognised for service received over the remainder of the vesting period is therefore recognised in the profit or loss upon cancellation.

During the year, the Group recognised the expense of RMB988,000 and RMB2,380,000 in relation to the cancellation of the Old Options and the grant of the New options by the Company respectively (2011: RMB105,000)

The following assumptions were used to calculate the fair values of the New Options:

Grant date share price	HK$0.77
Exercise price	HK$0.82
Expected life	3.44 years
Expected volatility	52.90%–68.40%
Dividend yield	4.40%
Risk-free interest rate	0.27%–0.46%
Exercise multiple	2.2

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the New Options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

37. RETIREMENT BENEFITS SCHEMES

The Group operates a mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under control of a trustee. The Group contributes HK$1,000 — HK$1,250 (2011: HK$1,000) per person per month to the Scheme, which is matched by employees.

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

The total cost charged to income of RMB5,048,000 (2011: RMB4,448,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

For the year ended 31 December 2012

38. RELATED PARTIES TRANSACTIONS

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye (Group) Company Limited ("Zheng Ye Group")	Controlled by the controlling shareholders of the company
Zhongshan City Zhong Fa Equipment Rental Company Limited ("Zhong Fa Equipment")	Controlled by the controlling shareholders of the company
Zhang Junchao	Director of a subsidiary, and resigned as a director on 02 March 2012
Hu Zheng	Director of the Company

(b) Related parties transactions

During the year, the Group entered into the following transactions with related parties:

	2012 RMB'000	2011 RMB'000
Rental expenses of property		
— Zheng Ye Group	**4,344**	4,344
— Hu Zheng	–	52
	4,344	4,396
Rental expenses of vehicles		
— Zhong Fa Equipment	**198**	198
Purchase of property, plant and equipment		
— Zhang Junchao	–	300

(c) Rental deposit of RMB450,000 (2011: RMB450,000) paid to Zheng Ye Group has been included in trade and other receivables in the Consolidated Statement of Financial Position at 31 December 2012.

(d) Related parties balances

Amounts due to directors and amounts due to related parties are separately disclosed on the Consolidated Statement of Financial Position and the related notes.

(e) Compensation of key management personnel

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

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	**16,655**	9,222
Share-based payment	**2,258**	–
Retirement benefits scheme contributions	**114**	98
	19,027	9,320

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

For the year ended 31 December 2012

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December		Proportion of voting power held by the Company		Principal activities
				2012	2011	**2012**	2011	
TYAZ International Limited ("Zheng Ye (BVI)")	British Virgin Islands ("BVI") 5 July 2010	Authorized US$50,000 US$10,000*	Ordinary	**100%***	100%*	**100%**	100%	Investment holding
正業國際有限公司 Zheng Ye International Company Limited ("Zheng Ye International")	Hong Kong 5 February 1999	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding
誠業(香港)投資實業有限公司 Shing Yip (Hong Kong) Investment Enterprises Limited ("Shing Yip (Hong Kong)")	Hong Kong 6 May 2005	HK$10,000	Ordinary	**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	HK$12,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging Products
中山永發紙業有限公司 Zhongshan Yong Fa Paper Industry Company Limited ("Zhongshan Yong Fa Paper")	PRC 26 November 2003	HK$81,500,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper and paperboard
中山正業聯合包裝有限公司 Zhongshan Zheng Ye Alliance Packing Company Limited ("Zheng Ye Alliance Packaging")	PRC 21 August 2006	RMB10,000,000	Ordinary	**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 Packing Company Limited ("Zheng Ye Packaging (Zhuhai)")	PRC 25 August 2005	HK$12,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and related packaging service
中山市中糖廢紙回收有限公司 Zhongshan City Zhong Tang Waste Paper Recycling Company Limited ("Zhong Tang Recycling")	PRC 16 February 2001	RMB500,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper

For the year ended 31 December 2012

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ Registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2012	2011	Proportion of voting power held by the Company 2012	2011	Principal activities
合肥市正業包裝有限公司 Hefei City Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Hefei)")	PRC 10 September 2010	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
鄭州正業包裝有限公司 Zhengzhou Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhengzhou)")	PRC 27 April 2011	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
石家莊正業包裝有限公司 Shijiazhuang Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Shijiazhuang)")	PRC 23 November 2011	RMB20,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
武漢正業包裝有限公司 Wuhan Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Wuhan)")	PRC 6 September 2011	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
合肥華嘉再生資源有限責任公司 Hefei Hua Jia Resource Recycling Company Limited ("Hefei Huajia")	PRC 15 November 2011	RMB500,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper
湖北永發紙業有限公司 Hubei Yong Fa Paper Industry Company Limited ("Hubei Yong Fa Paper")	PRC 10 December 2012	RMB30,000	Ordinary	**100%**	–	**100%**	–	Manufacturing and sale of paper and paperboard
合肥誠業包裝有限公司 Hefei ShingYip Packaging Company Limited ("Hefei Shing Yip Packaging")	PRC 22 May 2012	RMB10,000	Ordinary	**100%**	–	**100%**	–	Manufacturing and sale of paper based packaging products and printing of decorative packaging products

* Except for Zheng Ye (BVI), the issued capital of all other companies is fully paid and indirectly held by the Company.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31/12/2012 RMB'000	31/12/2011 RMB'000
Non-current Assets		
Unlisted investment in a subsidiary	**135,884**	135,884
Amounts due from subsidiaries	**102,261**	95,416
Property, plant and equipment	**62**	137
	238,207	231,437
Current Assets		
Bank balances and cash	**990**	798
Other receivables	**663**	602
Dividend receivables	**25,142**	37,683
Amounts due from subsidiaries	**453**	–
	27,248	39,083
Current Liabilities		
Amounts due to directors	**314**	3,816
Other payables	**365**	573
	679	4,389
Net Current Assets	**26,569**	34,694
Total Assets less Current Liabilities	**264,776**	266,131
Capital and Reserves		
Share capital	**41,655**	41,655
Reserves	**130,153**	131,508
Share premium	**92,968**	92,968
Total equity	**264,776**	266,131

Movement in reserves

	Merger reserves RMB'000	Share option reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011	–	–	–	–
Profit and total comprehensive income for the year	–	–	33,844	33,844
New issue of shares by way of public offering	97,559	–	–	97,559
Recognition of equity-settled share-based payments	–	105	–	105
At 31 December 2011	97,559	105	33,844	131,508
Profit and total comprehensive income for the year	**–**	**–**	**26,164**	**26,164**
Recognition of equity-settled share-based payments	**–**	**281**	**–**	**281**
Dividends	**–**	**–**	**(27,800)**	**(27,800)**
At 31 December 2012	**97,559**	**386**	**32,208**	**130,153**

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2008 RMB'000 (Note 3)	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	2011 RMB'000	**2012 RMB'000**
Revenue	836,409	743,351	1,053,302	1,163,803	**1,242,371**
Profit before taxation	30,283	72,269	97,321	58,876	**62,167**
Income tax expense	(5,817)	(10,005)	(16,211)	(12,436)	**(10,750)**
Profit for the year	24,466	62,264	81,110	46,440	**51,417**
Total comprehensive income for the year attributable to the owners of the Company	24,466	62,264	81,110	46,440	**51,417**

CONSOLIDATED ASSETS AND LIABILITIES

	At 31 December				
	2008 RMB'000 (Note 3)	2009 RMB'000 (Note 3)	2010 RMB'000 (Note 3)	2011 RMB'000	**2012 RMB'000**
Total assets	768,243	889,126	1,147,221	1,452,726	**1,803,516**
Total liabilities	(502,468)	(574,631)	(857,435)	(981,939)	**(1,305,744)**
Net assets	265,775	314,495	289,786	470,787	**497,772**

Note 1: The Company was incorporated in Bermuda on 18 August 2010 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 4 March 2011. The financial summary has been presented on the basis that the Company had been the holding company of the Group from the beginning of the earliest period presented.

Note 2: Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares listed on the Stock Exchange during the period from the date of the Listing (i.e. 3 June 2011) to 31 December 2012.

Note 3: The figures for the three years ended 31 December 2008, 2009 and 2010 have been extracted from the prospectus of the Company dated 24 May 2011.