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

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

Annual Report 2013

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FINANCIAL HIGHLIGHTS

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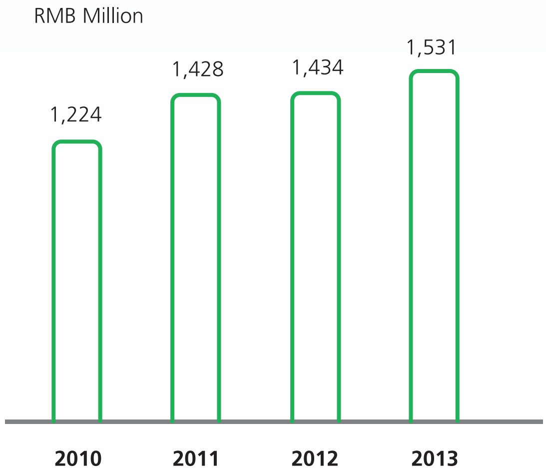
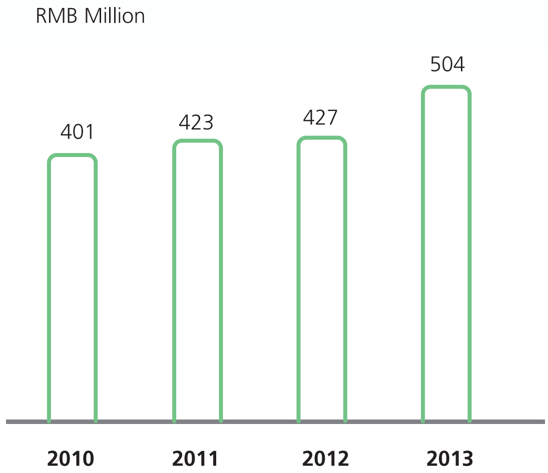
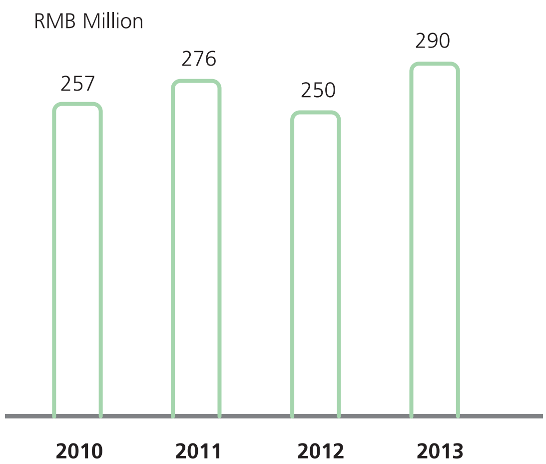


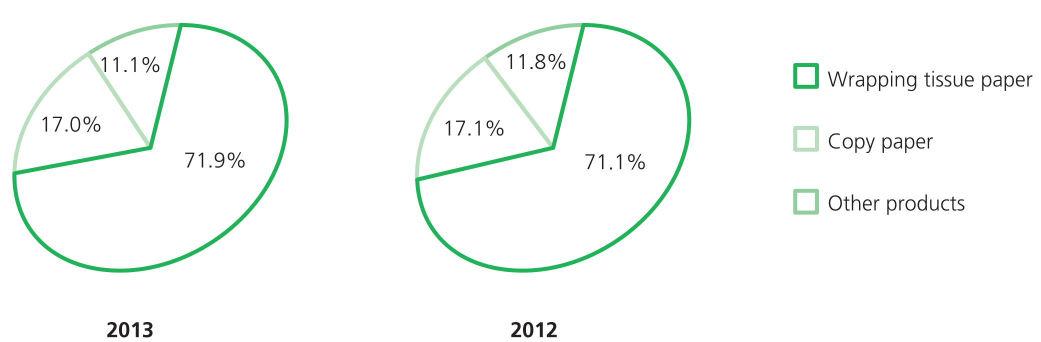
Gross Profit



Profit and total comprehensive income attributable to owners of the Company



Sales analysis by categories



Executive directors

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

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Nomination committee

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

Company secretary

Mr Wong Yat Sum, *FCCA, HKICPA*

Authorised representatives

Mr Ke Wentuo
Mr Wong Yat Sum

Cayman Islands share registrar and transfer office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands
(effective from 26 January 2013)

Hong Kong share registrar

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

Registered office

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

Headquarters in the PRC

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

Principal place of business in Hong Kong

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

Bank of China, Quanzhou Branch
China Merchants Bank, Quanzhou Branch
China CITIC Bank, Quanzhou Branch
China CITIC Bank International Limited
Industrial and Commercial Bank of China Limited, Jinjiang Branch
The Hongkong and Shanghai Banking Corporation Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood Mallesons

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd.

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited annual results of the Group for the year ended 31 December 2013. Towards the end of the year the major uncertainty clouding the market as to when and how the Federal Reserve of the United States would scale back its quantitative easing policy was finally removed. The Fed announced in mid-December that effective from January 2014 it will cut down its monthly repurchase of long-term Treasury bonds and mortgage-backed securities by US$10 billion in aggregate. The additional remarks by the Fed to reinforce its forward guidance on interest rates that rates would likely be stay close to zero helped instill an extra layer of confidence to the investment markets. The rebounds in the level of manufacturing activities, residential property prices and the sustaining rapid growth in retail sales in China reaffirmed the Group's interim projection that there was an across-the-board economic recovery in the country.

Business Review

For the year ended 31 December 2013, the Group's revenue was approximately RMB1,531.1 million (2012: RMB1,434.4 million), representing an increase of approximately 6.7% from that of the previous year. Profit attributable to owners of the Company increased by approximately 16.1% to approximately RMB290.4 million (2012: RMB250.2 million). Basic earnings per share amounted to approximately RMB0.264 (2012: RMB0.227) per share.

The long-awaited rebound of manufacturing activities in China was substantiated by the rebound of the purchasing manager index since the beginning of the fourth quarter. Residential property prices sustained the growth momentum since the beginning of the year while retail sales also continued its relatively rapid growth momentum throughout the year.

These recovery leads helped sustain orders for the Group's mainstream wrapping tissue paper, copy paper, ivory boards and paper towel products, the sales performances of which mirrored increasingly that of retail sales and domestic consumption.

Commencement of production of a new delinked pulp production facility in mid-2013 allowed the Group to exploit deeper advantages in raw material costs, especially when prices of raw pulp had been staying firm throughout the year.

Meanwhile, the Central Government under the new leadership continued to implement its consolidation policy within China's paper making industry, looking at phasing out even more low-efficiency, obsolete and non-environmental friendly capacities. This had helped restore order in pricing of most products and capacity utilization within the paper making industry in different product categories. Ideas about further environment protection measures, including possible trading of carbon emission quotas, had been tabled to the Central Government for further discussion. These moves are progressing in favor of industry participants with sufficient investments in environmental friendly production and emission reduction facilities including the Group.

Finally the Group is set to commence production of high quality wall paper backing paper products following the necessary teething adjustments to ensure good quality. This development will come in line with the revival of residential property markets in key cities which is expected to underpin demand for the Group's wall paper backing paper products.

Prospect and Strategy

Looking ahead, the Board of Directors of the Company (the "Board") believes that a broad-based recovery in the economy in China has started and will be sustaining. Major investment banks have forecasted the retail sales in China will experience accelerating growth at least until mid-2014, a trend that will support demand for the Group's mainstream wrapping tissue paper, ivory board and paper towel products.

Meanwhile, the sustaining recovery of residential property markets in cities in China is set to continue due to the strong end-user demand resulting from the country's sustaining and deepening urbanization policies. The Group believes that this will be positive in two aspects: supporting demand for its high quality wall paper backing paper products on one hand, while stimulating demand for wrapping paper and other paper products as more and more people adopt urban lifestyles.

The Group will continue to optimize its competitive edges from its de-inked pulp self-manufacturing capabilities and capacities, looking to exploit more cost advantages with a view to achieving further margin improvement to secure its industry leading position.

Meanwhile, the Group will review and improve further its environmental-friendly production process and waste management to prepare itself for even more stringent environmental protection policies possibly launched by the Central Government. This is among one of the many areas the Group can outperform its peers and achieve expansion in its market shares in different product categories and geographies.

Acknowledgements

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

Ke Wentuo
Chairman

Hong Kong, 3 March 2014

BUSINESS REVIEW

The world economy finally received confirmation for sustaining recovery after Federal Reserve of the United States announced its plan to trim its monthly purchases of long-term Treasury bonds and mortgage-backed securities by US$10 billion in aggregate. This long-awaited announcement, together with the Federal Reserve's pledge to keep interest rates low for the medium term, has removed a major uncertainty in the market, putting recovery of the US and European economies on track.

In China, the new session of Central Government exhibited stronger determination to establish domestic consumption as a key driver of the country's economic growth in the Third Plenary Session of the 18th CPC Central Committee held in November. This direction echoed well with the recovering residential property markets in key cities and the firmer retail sales growth since the fourth quarter has kicked in.

With the country's retail sales growth staying relatively rapid at 13.1% year on year for the full year of 2013, the demand for wrapping tissue paper remained strong.

As China continued its policy of phasing out obsolete and non-environmental friendly paper making capacities, seeking to leave the industry with about 1,500 stronger participants from the previous 2,500, the industry's capacity utilization as a whole shows ongoing improvement while prices of raw pulp and finished products remained relatively stable throughout the year.

The Group managed to increase its usage of de-inked pulp by approximately 27,000 tonnes in 2013 from the previous year, thereby reinforced its cost advantage.

The newly invested wall paper backing paper production took longer than expected to go through the testing and automation modification procedures than previously expected. As the Group aspires to position its wall paper backing paper product on the high end, making this a true substitute to imports for wall-paper manufacturers in China, it endeavors to conduct all necessary tests and modifications to make sure that the highest quality product will be delivered, and that the high quality can be maintained.

BUSINESS REVIEW AND OUTLOOK

Segmental Analysis

Wrapping tissue paper

Wrapping tissue paper includes double-sided machine-finished ("MF") tissue paper, single-sided MF tissue paper, food wrapping tissue paper, semi-transparent wrapping tissue paper, and colour wrapping tissue paper.

Total revenue generated from wrapping tissue paper was RMB1,101.5 million, contributed to approximately 71.9% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB259.8 million, representing an increase of 5.6% when compared with that of the year ended 31 December 2012, and contributed to approximately 17.0% of the Group's revenue.

Wall paper backing paper

The wall paper backing paper production was still undergoing stringent testing and automation modifications to better ensure that only the highest quality product will be delivered and the quality can be maintained.

Other products

Other products, comprising paper towel and ivory boards, generated revenue of RMB169.8 million during the period and contributed to approximately 11.1% of the Group's revenue for this reporting period.

Geographical Analysis

The Group's revenue was entirely generated from mainland China. Eastern China and Southern China were the largest markets of the Group (by breakdown of locations from which sales were originated), with over 92% of Group's revenue for the reporting period being derived from these two regions.

Operational Analysis

As at 31 December 2013, the Group operated 33 production lines with designed annual production capacities aggregating 320,000 tonnes, including 195,000 tonnes for wrapping tissue paper, 44,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 46,000 tonnes for other products.

The Group is also equipped with 3 in-house de-inked pulp production lines with designed annual production capacities aggregating 150,000 tonnes for its own use.

Prospects

The Group has successfully exhibited its strong cost advantage from its self-developed de-inked pulp production capacities. This will become an entry barrier not only for new entrants but also for the existing peers to catch up with. The increasing usage of recycled raw materials and environmental-friendly production facilities, and the investments over the years in waste-water recycling and management will help secure the Group's industry leadership position, especially given the Central Government has decided on pursuing further consolidation within the country's paper-making industry.

Meanwhile, the recovery of activities in China's residential property markets in key cities will help sustain demand for home refurbishment and improvement, underpinning the demand for wall paper backing paper.

The Group believes that its business will continue to derive benefits from the ongoing industry consolidation and sustaining recovery of the retail sector and residential property markets in key cities in 2014. The Group's scale, margin and cost advantages will continue to strengthen from the increasing use of self-produced de-inked pulp. These will help create better value for the shareholders of the Company.

Results

Revenue of the Group for the year ended 31 December 2013 was RMB1,531.1 million, representing an increase of approximately 6.7% from RMB1,434.4 million for the year ended 31 December 2012. Profit and total comprehensive income attributable to owners of the Company increased by approximately 16.1% from RMB250.2 million for the year ended 31 December 2012 to RMB290.5 million for the year ended 31 December 2013. The increases in profit and total comprehensive income attributable to owners of the Company were a result of an increase in sales volume of approximately 18,000 tonnes during this reporting period and the benefit from increased usage of de-inked pulp, the impact of which was partly offset by the higher income tax expenses charged during this year.

Basic earnings per share for the year ended 31 December 2013 increased by 16.3% to RMB0.264 per share when compared with RMB0.227* per share for the year ended 31 December 2012, based on the profit attributable to owners of the Company of RMB290.5 million (For the year ended 31 December 2012: RMB250.2 million) and the weighted average of 1,100,000,000 shares (For the year ended 31 December 2012: 1,100,000,000 shares*) in issue during the reporting period.

* Adjusted for the bonus issue in 2013

Gross profit

Gross profit of the Group increased modestly to RMB503.6 million for year ended 31 December 2013 from RMB427.2 million for the year ended 31 December 2012. Overall gross profit margin of the Group significantly improved from 29.8% for the year ended 31 December 2012 to 32.9% for the year ended 31 December 2013.

Other income and other gains and losses

Other income and other gains and losses of the Group increased from the net gain of RMB10.0 million for the year ended 31 December 2012 to a net gain of RMB13.7 million for the year ended 31 December 2013, mainly due to a net foreign exchange gain of RMB4.7 million arising from appreciation of the RMB against other currencies.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 27.8% from RMB7.4 million for the year ended 31 December 2012 to RMB9.5 million for year ended 31 December 2013, representing approximately 0.6% of the Group's revenue for both reporting periods.

Administrative expenses

Administrative expenses of the Group increased by approximately 14.3% from RMB66.8 million for the year ended 31 December 2012 to RMB76.4 million for the year ended 31 December 2013, representing approximately 4.7% and 5.0% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, property tax and employee benefits expenses.

Finance costs

Finance costs of the Group increased by approximately 9.2% from RMB36.5 million for the year ended 31 December 2012 to RMB39.9 million for the year ended 31 December 2013, primarily due to an increase in the average balance of bank borrowings during the reporting period.

Interest rates of bank loans ranged from 1.91% to 8.31% for the year ended 31 December 2013, compared with 2.73% to 7.54% for the year ended 31 December 2012.

Other expenses

Other expenses mainly comprise research and development expenses on energy conservation, consumption reduction, environmental protection system and application of recycled materials as raw materials across the production process.

Taxation

Tax charge increased by approximately 75.1% from RMB43.9 million for the year ended 31 December 2012 to RMB76.8 million for the year ended 31 December 2013, primarily due to the higher tax rate applied to the Group's subsidiaries in mainland China starting from 2013. The Group's effective tax rates for the year ended 31 December 2012 and 2013 were 14.9% and 20.9%, respectively. The increase in the effective tax rate was mainly due to expiry of the preferential tax rate for the Group's subsidiaries in mainland China.

During this year, a subsidiary of the Group obtained high and new technology enterprise certificate and was entitled a preferential tax rate of 15% for a three-year period from 2012 to 2014.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB250.2 million for the year ended 31 December 2012 to RMB290.5 million for the year ended 31 December 2013. The ratio of profit and total comprehensive income attributable to owners the Company to revenue increased from approximately 17.4% for the year ended 31 December 2012 to approximately 19.0% for the year ended 31 December 2013.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production. For the year ended 31 December 2013, the inventory turnover cycle was approximately 50.4 days (For the year ended 31 December 2012: 69.0 days). The improvement of inventory turnover days was mainly due to better control by the Group on inventory management.

Due to continuing tightening of liquidity in China for most of the year, the Group made a strategic decision to lengthen its standard credit term for customers to 90 days to 120 days from 60 days to 90 days to allow them more leeway to arrange their capital resources. That said, the turnover cycle of trade receivables for the year ended 31 December 2013 was 110.1 days, still below the standard credit term of 120 days. With deep understandings in its customers, the Group does not envisage any acute deterioration of the credit quality of its trade receivables.

The turnover cycle for the Group's trade and bills payables for the year ended 31 December 2013 lengthened to 72.2 days (For the year ended 31 December 2012: 57.0 days), which was longer than the 60 days credit period granted by the Group's suppliers.

Borrowings

As at 31 December 2013, the Group's bank borrowings balance amounted to RMB970.8 million, of which RMB573.8 million will be due for repayment within the next twelve months (As at 31 December 2012: RMB927.7 million, of which RMB404.7 million will be due for repayment within the next twelve months).

As at 31 December 2013, the Group's bank borrowings amounted to RMB171.0 million, carried at fixed interest rates (As at 31 December 2012: RMB171.0 million).

As at 31 December 2013, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 35.8% (As at 31 December 2012: 28.2%).

Pledge of assets

As at 31 December 2013, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with aggregate carrying value of RMB537.0 million (As at 31 December 2012: RMB528.0 million) as collaterals to back credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2013, the Group invested RMB274.2 million (For the year ended 31 December 2012: RMB618.9 million) primarily for construction of production facilities and equipment and prepaid lease payments.

Human resources management

As at 31 December 2013, the Group employed approximate 1,800 staff (As at 31 December 2012: approximate 1,900 staff) and the total remuneration for the year ended 31 December 2013 amounted to approximately RMB64.1 million (For the year ended 31 December 2012: RMB61.3 million). The Group's remuneration packages are commensurate with the experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board has resolved to recommend payment of a final dividend for the year ended 31 December 2013 of HK$0.063 per share (For the year ended 31 December 2012: HK$0.053 per share), totaling HK$69,300,000, approximately amounted to RMB54,000,000. It is expected that the final dividend will be paid on or about 30 May 2014 to the shareholders whose names appear on the register of members of the Company on 15 May 2014.

Closure of register of members

The register of members of the Company will be closed during the following periods:

(i) From 30 April 2014 to 8 May 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 29 April 2014 for registration of transfer.

(ii) From 16 May 2014 to 21 May 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the proposed final dividend (which are expected to be payable on or about 30 May 2014), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 15 May 2014 for registration of transfer.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr Ke Wentuo (**柯文托**), aged 57, is the founder of our Group and Chairman of our Company. He is the father of Mr Ke Jixiong, an executive Director and the chief executive officer of our Company. Mr Ke was appointed as Executive Director on 12 October 2009. He is primarily responsible for our overall strategies, planning and business development. Mr Ke graduated and earned a college diploma from Fujian College of Forestry (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr Ke has more than 19 years of experience in paper manufacturing. Mr Ke has been a vice-president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr Ke has been a committee member of the Jinjiang City National People's Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Tenth Quanzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議第十屆泉州委員會) since December 2009. Mr Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making*(中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr Ke Jixiong (**柯吉熊**), aged 30, joined our Group in 2002 and is the chief executive officer of our Company. He is the son of Mr Ke Wentuo, an executive Director and the chairman of our Company. Mr Ke Jixiong was appointed as an Executive Director on 6 January 2010. He is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distant learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award*(晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference*(中國人民政治協商會議福建省晉江市委員會). He plays an instrumental role in formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and that our production plans, are implemented on schedule, such as introducing de-inking facilities to produce de-inked pulp in house.

Mr Cao Xu (**曹旭**), aged 49, joined our Group in 1997 and was appointed as an Executive Director on 6 January 2010. Mr Cao is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and earned a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三治金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr Zhang Guoduan (**張國端**), aged 50, joined our Group in 2008 and was appointed as an Executive Director on 6 January 2010. In 1998, Mr Zhang completed an 18-month course at Xiamen University* (廈門大學) majoring in economics and management. Mr Zhang has 31 years of experience in paper manufacturing. From September 1982 to October 1995, Mr Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

Independent Non-Executive Directors

Prof. Zhang Daopei (**張道沛**), aged 77, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Zhang graduated from Dongbei Industrial College*(東北工學院)(now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University*(河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 44 years working in paper manufacturing in areas including paper product development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建造紙學會) from 1994 to 2007.

Prof. Chen Lihui (**陳禮輝**), aged 48, was appointed as an Independent Non-executive Director on 6 January 2010. Prof. Chen graduated from Fuzhou University* (福州大學) with a bachelor of engineering degree majoring in machine manufacturing processes and equipment in 1987. He then earned his master s degree in 1996 and his doctorate degree in 2003 majoring in pulp and paper engineering from South China University of Technology*(華南理工大學). From July 1987 to October 2000, Prof. Chen was with the Fujian College of Forestry* (福建林學院)(now part of Fujian Agriculture and Forestry University* (福建農林大學)), working in various capacities as an assistant professor, a lecturer, an associate professor and an instructor for master s degree research students. Since November 2000, Prof. Chen was with the Material Engineering College*(材料工程學院)of the Fujian Agriculture and Forestry University* (福建農林大學), serving as a professor, an instructor of doctorate and master degree students and a college dean. Prof. Chen was awarded the Fujian Young Scientist Award* (福建青年科技獎) in 2006 for his outstanding achievements in technology, and has won awards for numerous research projects in China, including the Fujian Technology Award* (福建省科學技術獎) in December 2003, 2004, 2005 and February 2009, and the Fuzhou Technological Advancement Award* (福州市科學技術進步獎) in September 2008.

Mr Chow Kwok Wai (**周國偉**), aged 47, was appointed as an Independent Non-executive Director on 6 January 2010. Mr Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr Chow is a Fellow member of the Association of Chartered Certified Accountants, a Fellow CPA of the Hong Kong Institute of Certified Public Accountants and a Fellow member of the Taxation Institute of Hong Kong ("TIHK"). Mr Chow is also a registered Certified Tax Adviser (註冊稅務師) of the TIHK effective since 7 September 2010. Mr Chow has worked in PriceWaterhouse, which is now known as PriceWaterhouseCooper and has over 20 years' of experience in accounting, financial management and corporate finance. He is an executive director of Silver Grant International Industries Limited (stock code: 171) during the period 20 April 2004 to 28 December 2012, a non-executive director of Cinda International Holdings Limited (stock code: 111) and an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. (stock code: 2005), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Senior management

Mr Lin Wenfeng (**林文峰**), aged 45, is the assistant to our Chairman. Mr Lin joined our Group in 2008 and is responsible for assisting our Chairman in administration and management of our Group. Mr Lin graduated with a college diploma from Anhui University of Finance & Economics* (安徽財經大學) majoring in finance and accounting in 2005 and graduated from Anhui University* (安徽大學), majoring in law in 2008. Prior to joining our Group, Mr Lin was worked for Bank of China Jinjiang Branch between October 1988 and May 2007, where he was responsible for the bank's credit management, credit limit management and overall branch management.

DIRECTORS AND SENIOR MANAGEMENT

Mr Wong Yat Sum (**黃一心**), aged 37, is our Chief Financial Officer and our Company Secretary. Mr Wong joined our Group in 2009 and is responsible for the budget, financial management and control of our Group. Mr Wong has over seven years of experience in accounting and auditing in an international accounting firm. Mr Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of Associate of Chartered Certified Accountants. Prior to joining our Group, Mr Wong was a financial controller for a wood-flooring company in Shanghai, China, where he was responsible for finance, treasury, business planning and risk management.

Mr Liao Chunxiang (**廖春祥**), aged 49, is Deputy General Manager of Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"). Mr Liao joined our Group in 2008 and is responsible for managing manufacturing processes at Huaxiang. As Mr Liao is also a member of our research and development centre, where he participates in our research and development projects. Mr Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr Ke Hongchi (**柯鴻池**), aged 39, is Sales Manager of our Group and is responsible for business development and sales. Mr Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and joined our Group in 1994. Mr Ke Hongchi is responsible for sales development and the management of the sales team of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa"). Since the establishment of Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Huaxiang in 2006, he has also been responsible for overseeing sales development and managing the sales team of Xiyuan and Huaxiang.

Mr Chen Changxing (**陳長興**), aged 50, is Manager of our research and development centre. Mr Chen joined our Group in 2006 and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr Shuai Liangming (**帥亮明**), aged 49, is Quality Control Manager of Huaxiang. Mr Shuai joined our Group in 2008 and is responsible for quality control at Huaxiang. As Mr Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

Mr Wu Xiaoxi (**吳曉曦**), aged 52, is Head of Electrical Engineering Department of Huaxiang. Mr Wu joined our Group in 2000 and is responsible for the management of matters relating to electrical engineering at Huaxiang. As Mr Wu is also member of our research and development centre, he also participates in our research and development projects. Mr Wu graduated from Fuzhou University* (福州大學)in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Mr Chen Taibin (**陳太斌**), aged 36, is Manager of Human Resources Department of Youlanfa. Mr Chen joined our Group in 2009 and is responsible for hiring and training at Youlanfa. Mr Chen graduated and obtained a college diploma from Fujian Normal School* (福建師範專科學校) in 1995 majoring in chemistry. Prior to joining our Group, Mr Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.*(福建省晉江三源食品實業有限公司) as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms Yan Yahong (**顏雅紅**), aged 31, is Deputy Manager of our Purchasing Department. Ms Yan joined our Group in 2009 and is responsible for raw materials purchasing of our Group. Ms Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

Corporate Governance Code

Our Company has adopted the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. For the year ended 31 December 2013 (the "Review Period"), our Directors consider that our Company has complied with all the code provisions as set out in the Code.

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

Set out below is a detailed discussion of the corporate governance practices adopted and observed by our Company under the Review Period.

Model Code for Securities Transactions

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

Board of Directors

(i) Board Composition

The Board currently comprises four executive Directors and three independent non-executive Directors.

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

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

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

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

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

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

(ii) Board Functions and Duties

The principal functions and duties conferred to the Board include, among other things:

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

(iii) Board Meetings

During the Review Period, there were seven board meetings held, at which the Directors approved, among other things, the annual result of the Group for the year ended 31 December 2012 and the interim result for the six months ended 30 June 2013.

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

(iv) Attendance Record

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

	Attendance	
	board meetings	**general meeting**
Executive directors		
Mr Ke Wentuo (Chairman)	7/7	1/1
Mr Ke Jixiong (Chief Executive Officer)	7/7	1/1
Mr Cao Xu	7/7	0/1
Mr Zhang Guoduan	7/7	0/1
Independent non-executive directors		
Prof. Zhang Daopei	4/7	0/1
Prof. Chen Lihui	4/7	0/1
Mr Chow Kwok Wai	4/7	0/1

(v) Independent Non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experiences and qualifications to carry out their duties so as to protect the interests of the Shareholders. One of the independent non-executive Directors, Mr Chow is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has over 20 years of experience in accounting, financial management and corporate finance.

The Company has also received a written annual confirmation from each of the independent non-executive Directors in respect of their independence. After considering the factors set out in Rule 3.09 of the Listing Rules, the Board considers that all independent non-executive Directors continue to be independent throughout the Review Period.

(vi) Appointment and Re-election of Directors

According to the articles of association of the Company ("Articles"), at each annual general meeting, one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and shall be eligible for re-election. The Directors to be retired by rotation shall be those who have been serving the longest in office since their last appointment or re-election. Every Director shall be subject to retirement at an annual general meeting at least once every three years.

Mr Ke Jixiong, Mr Zhang Guoduan and Mr Chow Kwok Wai will retire from the Board by rotation at the forthcoming annual general meeting of the Company ("AGM") and, are eligible to offer themselves for re-election.

(vii) Terms of appointment of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 April 2013, and each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 April 2013, renewable upon expiry in both cases, subject to compliance of the Listing Rules and the Articles.

No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

(viii) Directors' Remuneration

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

(ix) Directors' Training

According to the code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, function and duties of the Directors.

The Company had received from each of the Directors a confirmation that they have taken continuous professional training, together with supporting documentary proof in accordance with the code provision A.6.5 of the Code.

Specifically, members of the Board have undertaken the following training activities:

Name of Director	Training activities undertaken
Mr Ke Wentuo	Attendance at seminar relating to economy, perusal of industry publications and journals
Mr Ke Jixiong	Attendance at seminar relating to corporate management, perusal of industry and management related publications and journals
Mr Cao Xu	Attendance at seminars relating to economy and industry, perusal of industry publications and journals
Mr Zhang Guoduan	Attendance at seminars relating to industry, perusal of industry publications and journals
Prof. Zhang Daopei	Attendance at seminars and tours relating to industry and knowledge relating to listed companies
Prof. Chen Lihui	Attendance at industry conferences and industry related academic tours
Mr Chow Kwok Wai	Attendance at seminars and undertaking online trainings relating to accounting, management and the Listing Rules

Board Diversity Policy

Pursuant to the new code provisions of the Code relating to board diversity which has come into effect since 1 September 2013, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of Director candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Audit Committee

Our Company has established an audit committee on 30 April 2010 with written terms of reference based upon the provisions and recommended practices of the Code. The primary responsibilities of our audit committee are to, among other things, review and supervise financial reporting processes and internal control system of the Group. As at 31 December 2013, our audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive Directors. Mr Chow Kwok Wai is the chairman of our audit committee.

During the Review Period, the audit committee held two meetings and subsequently on 3 March 2014, the audit committee held a meeting. The members of audit committee reviewed and discussed with the external auditors of the Company the Group's audited financial statements for the year ended 31 December 2012 and 2013 and the unaudited interim financial statements for the six months ended 30 June 2013. They were of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

The following is the attendance record of the committee meetings held by the audit committee during the Review Period.

	Attendance at meetings
Mr Chow Kwok Wai (Chairman)	2/2
Prof. Zhang Daopei	2/2
Prof. Chen Lihui	2/2

Our audit committee is responsible for making recommendations to our Board as to the appointment, re-appointment and removal of the external auditor, approve the remuneration and terms of engagement of the external auditor and review its independence, which is subject to the approval by our Board and at general meetings of our Company by our shareholders.

Auditor's Remuneration

The total fee paid/payable to the external auditor of our Group, Deloitte Touche Tohmatsu, was approximately RMB2.0 million and RMB0.1 million for the audit services and non-auditing services respectively for the year ended 31 December 2013. Non-auditing services mainly included tax advisory services. The Audit Committee is of the view that the auditors' independence is not affected by the services rendered.

Company Secretary

Mr. Wong Yat Sum is the Company Secretary. Mr. Wong has confirmed that, for the Review Period, he has taken no less than 15 hours of relevant professional training in compliance with the requirements of Rule 3.29 of the Listing Rules.

Director's Responsibility on the Financial Statements

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

Internal Control

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

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

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

Our Board is responsible for implementing the internal control system and reviewing its effectiveness. For the year ended 31 December 2013, our Board considered that the internal control system of our Group was adequate and effective and our Company had complied with the code provisions on internal control as set out in the Code during the Review Period.

Nomination Committee

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the Code. The nomination committee comprised Mr. Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee.

The nomination committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategies.

Before a prospective Director's name is formally proposed, the opinions of the existing Directors (including the Independent Non-Executive Directors) are sought. The selection criteria of the qualified candidates are mainly based on assessments of their qualifications, experiences and expertise as well as the requirements under the Listing Rules. The nomination committee selects and recommends candidates for directorship with regards to balancing skills and experiences appropriate to the Group's businesses.

During the Review Period, the nomination committee held one meeting. The members of nomination committee reviewed and discussed the current structure, size and composition of the Board and the remuneration of the senior management.

The following is the attendance record of the committee meetings held by the nomination committee during the Review Period.

	Attendance at meeting
Prof. Zhang Daopei (Chairman)	1/1
Prof. Chen Lihui	1/1
Mr Ke Wentuo	1/1

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the Code. As at 31 December 2013, our remuneration committee comprised Mr Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihui. Prof. Chen Lihui is the chairman of the remuneration committee.

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

Emolument Policies

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

During the Review Period, the remuneration committee held one meeting. The members of remuneration committee reviewed and discussed the policies for the remuneration of executive directors, the performances of executive directors during the Review Period.

The following is the attendance record of the committee meetings held by the remuneration committee during the Review Period.

	Attendance at meeting
Prof. Chen Lihui (Chairman)	1/1
Prof. Zhang Daopei	1/1
Mr Ke Wentuo	1/1

Meeting with Independent Non-executive Directors

During the Review Period, the Chairman of the Company held one meeting with the independent non-executive Directors without the presence of the other executive Directors on 26 February 2013 to review and discuss, among other things, the independence of the independence of the independent non-executive Directors and confirmed that the independent non-executive Directors can express their views on Board meetings without restrictions.

Corporate Governance Functions

The Board is responsible for performing the duties on corporate governance functions, which include:

- developing and reviewing the Company's policies and practices on corporate governance and making recommendations;
- reviewing and monitoring the training and continuous professional development of Directors and senior management;
- reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;
- developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report contained in the annual report of the Company.

The Board has held meetings from time to time to: (a) review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors; and (c) to review the Company's compliance with the Code and disclosure in the corporate governance report.

Communication with Shareholders

The Company endeavors to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. The annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate enforcement of shareholders' rights;

3. Interim and annual results are announced as early as possible, to keep shareholders informed of the Group's performances and operations; and

4. Updated key information of the Group is available on the Company's website to enable shareholders of the Company and investors to have timely accesses to information about the Group.

Shareholders' Rights

Procedure by which Shareholders can convene an Extraordinary General Meeting ("EGM") and put forward proposals at general meetings of the Company

Pursuant to the Articles, each general meeting, other than an annual general meeting, shall be called an EGM.

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company ("Company Secretary") at the Company's office in Hong Kong at Unit 1601, 16th Floor, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Any Shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consolidation not less than seven days prior to the date of such general meeting through the Company Secretary whose contact details are set out above.

Shareholder's Enquiries

Shareholders should direct their questions about their shareholdings to the Company's Registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary whose contact details are set out above.

Constitutional Documents

During the year, there was no change in the constitutional documents of the Company.

REPORT OF THE DIRECTORS

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries for the year ended 31 December 2013.

Corporate Reorganisation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 October 2009, under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through the corporate reorganisation undertaken in preparation of listing, our Company became the holding company of the Group on 14 January 2010. The Company's shares (the "Shares") have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 May 2010.

Principal Activities

The principal activity of our Company is investment holding. Particulars of the subsidiaries of our Company are set out in note 32 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 36 of this report.

The Directors recommend the payment of a final dividend of HK$0.063 (For the year ended 31 December 2012: HK$0.053) per ordinary share. Such dividend is to be approved by the shareholders of the Company at the annual general meeting to be held on 8 May 2014.

Reserves

Movements in reserves of the Group during the year ended 31 December 2013 are set out in page 38 of this report.

As at 31 December 2013, the reserves of our Group available for distribution to Shareholders amounted to RMB1,351,051,000 (As at 31 December 2012: RMB1,079,075,000).

Property, Plant and Equipment

Movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements.

Directors

The list of Directors during the year is set out in the section headed "Directors and senior management" on page 14 of this report.

Financial Summary

A financial summary of the Group for the last five years are set out on page 77 of this report.

Borrowings

Details of bank borrowings of the Group as at 31 December 2013 are set out in note 23 to the consolidated financial statements.

Share Option Scheme

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

(1) The purpose of the Scheme

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

(2) Who may join

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

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

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

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

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

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

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

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

(3) Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares from time to time.

(4) Maximum entitlement of each participant

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

(5) Offer period

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

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

(6) Minimum holding period, vesting and performance target

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

(7) Amount payable for Options

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

(8) Subscription Price

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

(a) the nominal value of a Share;

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

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

(9) Life of Share Option Scheme

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

As at 31 December 2013, no options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

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

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

As at 31 December 2013, the interests of each Director and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Ke Wentuo	Interest in controlled corporation and interest of spouse[1]	631,125,000	57.38%
Mr Ke Jixiong	Interest in controlled corporation[2]	36,300,000	3.30%

Note 1: The interest in 631,125,000 Shares comprise of:

(i) 605,055,000 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and

(ii) 26,070,000 Shares held by Denron International Limited ("Denron"), which in turn is wholly beneficially owned by Ms Cai Lishuang, and Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 26,070,000 Shares held by Denron.

Note 2: The interest in 36,300,000 Shares refer to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 31 December 2013, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	Beneficial interest[1]	605,055,000	55.01%
Ms Cai Lishuang	Interest in controlled corporation and interest of spouse[2]	631,125,000	57.38%
Cathay Special Paper Limited	Beneficial interest[3]	97,185,000	8.84%

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

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

Note 3: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 31 December 2013, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

Management Contracts

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

Contracts of Significance

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

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

Directors' Interests in Competing Business

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

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 5.4% (2012: 5.5%) and 21.2% (2012: 20.8%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 38.8% (2012: 25.7%) and 86.2% (2012: 77.2%) of the Group's total purchases respectively.

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

Deed of Non-competition

Each of the controlling shareholders of the Company, namely Mr. Ke Wentuo and Smart Port, has confirmed to the Company of his or its compliance with the non-compete undertakings provided to the Company under the Deed of Non-competition (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by the controlling shareholders.

Pre-emptive Rights

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

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

For the year ended 31 December 2013, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

Use of Net Proceeds from Initial Public Offering

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

	Intended use of proceeds stated in the Prospectus	Amount of net proceeds RMB' million	Proceeds utilized at of 31 Dec 2013 RMB' million
Purchase of machinery and equipment relating to new production facilities	45%	229.7	229.7
Construction of new plant and supporting facilities to support production of new products and increases to production capacity	40%	204.2	204.2
Working capital and other general corporate purposes	10%	51.1	51.1
Marketing expenses for growing our existing business in the PRC	5%	25.5	8.5
Total	100%	510.5	493.5

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the year ended 31 December 2013.

Auditor

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 3 March 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 77, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 2013 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
3 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	7	**1,531,102**	1,434,379
Cost of sales		**(1,027,518)**	(1,007,197)
Gross profit		**503,584**	427,182
Other income and other gains and losses	9	**13,667**	9,996
Selling and distribution expenses		**(9,469)**	(7,410)
Administrative expenses		**(76,375)**	(66,817)
Finance costs	10	**(39,890)**	(36,538)
Other expenses		**(24,229)**	(32,298)
Profit before tax	11	**367,288**	294,115
Income tax expense	12	**(76,822)**	(43,875)
Profit and total comprehensive income for the year attributable to owners of the Company		**290,466**	250,240
		RMB	RMB
Earnings per share - Basic	16	**0.264**	0.227*

* Adjusted for bonus issue in 2013.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**2,018,393**	1,812,118
Prepaid lease payments	18	**364,555**	372,387
Deposits paid for acquisition of property, plant and equipment		**10,512**	37,106
		2,393,460	2,221,611
CURRENT ASSETS			
Inventories	19	**140,353**	143,288
Trade and other receivables	20	**730,585**	330,212
Prepaid lease payments	18	**7,874**	7,916
Pledged bank deposits	21	**60,170**	45,170
Bank balances and cash	21	**142,130**	336,795
		1,081,112	863,381
CURRENT LIABILITIES			
Trade and other payables	22	**330,249**	207,491
Income tax payables		**21,779**	11,239
Bank borrowings	23	**573,801**	404,735
		925,829	623,465
NET CURRENT ASSETS		**155,283**	239,916
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,548,743**	2,461,527
NON-CURRENT LIABILITIES			
Bank borrowings	23	**397,000**	523,000
Deferred taxation	24	**3,500**	—
		400,500	523,000
NET ASSETS		**2,148,243**	1,938,527
CAPITAL AND RESERVES			
Share capital	25	**95,580**	87,680
Reserves		**2,052,663**	1,850,847
TOTAL EQUITY		**2,148,243**	1,938,527

The consolidated financial statements on pages 36 to 77 were approved and authorised for issue by the Board of Directors on 3 March 2014 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated profits**	**Total**
	RMB'000	RMB'000	RMB'000 (Note 26)	RMB'000	RMB'000
At 1 January 2012	87,680	396,269	421,233	867,005	1,772,187
Profit and total comprehensive income for the year	—	—	—	250,240	250,240
Dividends recognised as distribution (Note 15)	—	—	—	(83,900)	(83,900)
Transferred to accumulated profits (Note)	—	(71,200)	—	71,200	—
Appropriation	—	—	25,470	(25,470)	—
At 31 December 2012 and 1 January 2013	87,680	325,069	446,703	1,079,075	1,938,527
Profit and total comprehensive income for the year	—	—	—	**290,466**	**290,466**
Bonus issue (Note 25)	**7,900**	**(7,900)**	—	—	—
Dividends recognised as distribution (Note 15)	—	—	—	**(80,750)**	**(80,750)**
Transferred to accumulated profits (Note)	—	**(92,250)**	—	**92,250**	—
Appropriation	—	—	**29,990**	**(29,990)**	—
At 31 December 2013	**95,580**	**224,919**	**476,693**	**1,351,051**	**2,148,243**

Note: Pursuant to board resolutions of directors, the directors were authorised, and resolved, to transfer RMB92,250,000 (2012: RMB71,200,000) from share premium account to accumulated profits. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**367,288**	294,115
Adjustments for:		
Depreciation of property, plant and equipment	**65,034**	56,899
Finance costs	**39,890**	36,538
Release of prepaid lease payments	**7,874**	6,597
Loss on disposal of property, plant and equipment	**29**	62
Interest income	**(3,340)**	(1,599)
Operating cash flows before movements in working capital	**476,775**	392,612
Decrease in inventories	**2,935**	94,396
Increase in trade and other receivables	**(400,373)**	(22,432)
Increase in trade and other payables	**122,758**	1,083
Cash generated from operations	**202,095**	465,659
Income taxes paid	**(62,782)**	(41,674)
NET CASH FROM OPERATING ACTIVITIES	**139,313**	423,985
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(227,273)**	(362,824)
Placement of pledged bank deposits	**(15,000)**	(45,170)
Payments for prepaid lease payments	**—**	(45,148)
Withdrawal of pledged bank deposits	**—**	4,857
Interest received	**3,340**	1,599
Proceeds from disposal of property, plant and equipment	**2,895**	—
NET CASH USED IN INVESTING ACTIVITIES	**(236,038)**	(446,686)
FINANCING ACTIVITIES		
New bank borrowings raised	**553,801**	1,013,735
Repayments of bank borrowings	**(510,735)**	(618,120)
Interest paid	**(60,256)**	(50,340)
Dividend paid	**(80,750)**	(83,900)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(97,940)**	261,375
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(194,665)**	238,674
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**336,795**	98,121
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**142,130**	336,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port Holdings Limited (incorporated in the British Virgin Islands) and its ultimate controlling shareholder is Mr. Ke Wentuo ("Mr. Ke") who is also the Chairman of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 32.

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

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

New and revised Standards, Amendments and Interpretations applied in the current year

The Group has applied the following new and revised Standards, Amendments and Interpretations for the first time in the current year:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle
Amendments to IFRS 1	Government Loans
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (as revised in 2011)	Employee Benefits
IAS 27 (as revised in 2011)	Separate Financial Statements
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to IAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are 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 IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the other new or revised Standards, Amendments and Interpretations to IFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements of the Group.

New and revised Standards, Amendments and Interpretations issued but not yet effective

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle[2]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.
2 Effective for annual periods beginning on or after 1 July 2014.
3 Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016.

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

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition and further amended in 2013 to include the new requirement for hedge accounting.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 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 IFRS 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, IFRS 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 IAS 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.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate the adoption of IFRS 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 2013.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Interest income from a financial asset is recognised when it is probable that the economic benefit 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 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 as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 recognised in 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.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 or state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 before tax' as reported in the consolidated statement of profit or loss and other 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets

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

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

Inventories

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

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 classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

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 or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

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 90 to 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

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 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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Financial liabilities and equity instrument

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including bank borrowings and trade and other payables, are subsequently measured at amortised cost, using the effective interest method.

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 Group are recorded at the proceeds received, net of direct issue costs.

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.

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

The Group derecognizes 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.

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 that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current year. The carrying amount of property, plant and equipment is RMB2,018,393,000 (2012: RMB1,812,118,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of trade receivables is RMB613,619,000 (2012: RMB309,901,000). There is no allowance for doubtful debts as at 31 December 2013 and 2012.

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2013	2012
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**815,919**	691,866
Financial liabilities:		
Amortised cost	**1,264,456**	1,097,505

6b. Financial risk management objectives and policies

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

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The Group has financial assets and liabilities denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities including bank balances and cash, note payables and bank borrowings at the end of the reporting period are as follows:

	Assets		Liabilities	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollar ("HK$")	**3,076**	4,976	**112,541**	40,225
United Sates Dollar ("US$")	**932**	1,158	**91,260**	93,510

Sensitivity analysis

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

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

	HK$		US$	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**5,473**	1,762	**4,516**	4,618

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

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

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk of bank borrowings is mainly concentrated on the fluctuation of Benchmark Borrowing Rate ("Benchmark Borrowing Rate") of The People's Bank of China ("PBOC"), Hong Kong Interbanks Offered Rate ("HIBOR") and London Interbanks Offered Rate ("LIBOR") arising from the Group's RMB, HK$ and US$ denominated borrowings. The interest rates of bank balances and pledged bank deposit are mainly based on the benchmark saving rate quoted by PBOC.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rate risk which relates primarily to variable-rate bank balances and bank borrowings (see notes 21 and 23 for details of these balances). The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year.

For the bank balances, if the interest rates for benchmark saving rate had been increased/decreased by 10 basis points and other variables were held constant, the Group's post-tax profit for the year ended would increase/decrease by approximately RMB152,000 (2012: RMB253,000) for the year ended 31 December 2013.

For the bank borrowings, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by approximately RMB2,999,000 (2012: RMB2,838,000) for the year ended 31 December 2013.

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Credit risk

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

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

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

The Group's concentration of credit risk by geographical location is solely in the People's Republic of China (the "PRC"), as at 31 December 2013 and 2012.

The Group has concentration of credit risk as 22% (2012: 21%) of the total trade receivables was due from the Group's five largest customers in the paper industry in PRC as at 31 December 2013. The management is of the view that these trade debtors of the Group have good trade records without default history and consider that the trade receivables from these five customers are recoverable. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

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.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, the Group had available unutilised banking facilities of approximately RMB1,235,000,000 (2012: RMB878,510,000).

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

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

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	Less than 1 year RMB'000	1 - 2 years RMB'000	2 - 5 years RMB'000	Undiscounted cash flows RMB'000	Total Carrying amount RMB'000
At 31 December 2013						
Trade and other payables	—	293,653	—	—	293,653	293,653
Bank borrowings						
– fixed rate	6.60	173,822	—	—	173,822	171,000
– variable rate	5.92	441,225	394,769	25,423	861,417	799,801
		908,700	394,769	25,423	1,328,892	1,264,454
At 31 December 2012						
Trade and other payables	—	169,770	—	—	169,770	169,770
Bank borrowings						
– fixed rate	7.20	174,079	—	—	174,079	171,000
– variable rate	6.35	277,576	161,616	408,462	847,654	756,735
		621,425	161,616	408,462	1,191,503	1,097,505

6c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

7. REVENUE

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

	2013 RMB'000	2012 RMB'000
Revenue from the sales of:		
Wrapping tissue paper	1,101,538	1,018,961
Copy paper	259,787	245,919
Other products	169,777	169,499
	1,531,102	1,434,379

8. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered. This is also the basis upon which the Group is organised. No operation segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

- Wrapping tissue paper - manufacturing for sale of wrapping tissue paper;
- Copy paper - manufacturing for sale of copy paper;
- Wall paper backing paper - manufacturing for sale of wall paper backing paper;
- Other products - manufacturing for sale of paper towels and ivory boards.

During the year ended 31 December 2013, the Group has started the wall paper backing paper operation, which is reported as a separate operating segment to the Chief Executive Officer of the Company for the purposes of resource allocation and performance assessment. The production facilities of the wall paper backing paper operation is under trail period during the year.

There are certain expenses arising from the wall paper backing paper operation for the year ended 31 December 2013 and such expenses are regularly reviewed by the chief operating decision maker. However, as the amounts are insignificant, no amount is shown under the segment results of the wall paper backing paper.

(b) Segment revenue and segment results

	Segment revenue		Segment results	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wrapping tissue paper	**1,101,538**	1,018,961	**398,111**	329,737
Copy paper	**259,787**	245,919	**77,781**	78,476
Wall paper backing paper	—	—	—	—
Other products	**169,777**	169,499	**27,692**	18,969
	1,531,102	1,434,379	**503,584**	427,182
Other income and other gains and losses			**13,667**	9,996
Selling and distribution expenses			**(9,469)**	(7,410)
Administrative expenses			**(76,375)**	(66,817)
Finance costs			**(39,890)**	(36,538)
Other expenses			**(24,229)**	(32,298)
Profit before tax			**367,288**	294,115

8. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results (continued)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the gross profit of each operating segment. This is the measure reported to Chief Executive Officer for the purposes of resources allocation and performance assessment.

(c) Segment assets

	2013 RMB'000	2012 RMB'000
Wrapping tissue paper	577,383	596,959
Copy paper	121,235	144,212
Wall paper backing paper	197,350	178,711
Other products	114,009	127,618
Total segment assets	1,009,977	1,047,500
Unallocated		
– Property, plant and equipment	1,028,905	796,954
– Prepaid lease payments	372,429	380,303
– Deposit paid for acquisition of property, plant and equipment	10,512	37,106
– Inventories	119,864	110,952
– Trade and other receivables	730,585	330,212
– Pledged bank deposits	60,170	45,170
– Bank balances and cash	142,130	336,795
Consolidated assets	3,474,572	3,084,992

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

(d) Segment liabilities

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

8. SEGMENT INFORMATION (continued)

(e) Other segment information

	Wrapping tissue paper RMB'000	Copy paper RMB'000	Wall paper backing paper RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:						
Year ended 31 December 2013						
Addition to property, plant and equipment and prepaid lease payments	**24,246**	**385**	**19,417**	—	**230,185**	**274,233**
Depreciation and amortisation	**20,876**	**6,982**	—	**6,711**	**38,339**	**72,908**
Loss on disposal of property, plant and equipment	—	—	—	—	**29**	**29**
Year ended 31 December 2012						
Addition to property, plant and equipment and prepaid lease payments	53,440	7,834	154,668	42,285	360,711	618,938
Depreciation and amortisation	20,587	6,856	—	8,016	28,037	63,496
Loss on disposal of property, plant and equipment	—	—	—	—	62	62

(f) Geographical information

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

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

(g) Information about major customers

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

9. OTHER INCOME AND OTHER GAINS AND LOSSES

	2013 RMB'000	2012 RMB'000
Bank interest income	**3,340**	1,599
Loss on disposal of property, plant and equipment	**(29)**	(62)
Net foreign exchange gain	**4,710**	1,925
Government grants (Note)	**1,883**	2,556
Others	**3,763**	3,978
	13,667	9,996

Note: Government grants represented incentives granted by the local government authorities to the Group's subsidiaries located in the PRC for developing innovative production technology and maintaining a good reputation in the business community in 2012 and 2013. There are no unfulfilled conditions and other contingencies attaching to such grants. Such grants are for the purpose of giving immediate financial support to the Group with no future related costs and are therefore recognised in profit or loss during the year.

10. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**60,256**	50,340
Less: Amounts capitalised	**(20,366)**	(13,802)
	39,890	36,538

During the year ended 31 December 2013, the borrowing costs RMB20,366,000 (2012: RMB13,802,000) capitalised are attributable to funds borrowed specifically for the purpose of constructing particular qualifying assets.

11. PROFIT BEFORE TAX

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

	2013 RMB'000	2012 RMB'000
Employee benefits expenses (including directors):		
Salaries and other benefits	61,831	59,132
Retirement benefits scheme contributions	2,382	2,210
	64,213	61,342
Depreciation of property, plant and equipment	65,034	56,899
Release of prepaid lease payments	7,874	6,597
Total depreciation and amortisation expenses	72,908	63,496
Auditors' remuneration	2,136	2,263
Research and development cost recognised as an expense (included in other expenses)	24,229	32,298
Cost of inventories recognised as expenses	1,024,018	1,007,197

12. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Income tax expense:		
Current tax		
Charge for the year	78,703	43,875
Overprovision in prior year	(5,381)	—
	73,322	43,875
Deferred tax (Note 24)		
Charge for the year	3,500	—
	76,822	43,875

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

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

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

12. INCOME TAX EXPENSE (continued)

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

Youlanfa obtained a high and new technology enterprise certificate during the year and was entitled to a preferential tax rate of 15% for three year period from 2012 to 2014, subject to annual review by the relevant tax authority. Subsequent to the annual review in 2013, an overprovision of approximately RMB5,381,000 of income tax for 2012 was credited in profit and loss in current year, representing the over provided EIT rate of 25% in 2012. For the year ended 31 December 2013, the preferential tax rate of 15% has applied to Youlanfa, which is subject to annual review in 2014.

For the year ended 31 December 2012, Huaxiang and Xiyuan are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years in accordance to the relevant laws and regulations in the PRC. Years 2008 and 2009 were the exemption years, and years 2010 to 2012 are subject to 50% reduced tax rate of 12.5%.

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

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**367,288**	294,115
Tax at the PRC statutory EIT rate of 25%	**91,822**	73,529
Effect of tax exemptions and tax concession	**(14,928)**	(30,691)
Overprovision in prior year	**(5,381)**	—
Deferred tax on PRC dividend withholding tax	**3,500**	—
Tax effect of expenses not deductible for tax purpose	**1,665**	1,643
Others	**144**	(606)
	76,822	43,875

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 7 (2012: 7) directors and the chief executive were as follows:

For the year ended 31 December 2013

	Directors							
	Mr. Ke RMB'000	Mr. Ke Jixiong RMB'000	Mr. Cao Xu RMB'000	Mr. Zhang Guoduan RMB'000	Prof. Zhang Daopei RMB'000	Prof. Chen Lihui RMB'000	Mr. Chow Kwok Wai RMB'000	Total RMB'000
Fees	—	—	—	—	96	96	143	335
Other emoluments								
Salaries and other benefits	1,253	1,015	128	130	—	—	—	2,526
Contributions to retirement benefits schemes	15	15	11	11	—	—	—	52
Performance related incentive payments								
Share-based payment	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—
Total emoluments	1,268	1,030	139	141	96	96	143	2,913
Pensions paid to directors	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive by:								
The Company	—	—	—	—	—	—	—	—
The Company's subsidiaries	—	—	—	—	—	—	—	—
	1,268	1,030	139	141	96	96	143	2,913

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

For the year ended 31 December 2012

	Directors							
	Mr. Ke	Mr. Ke Jixiong	Mr. Cao Xu	Mr. Zhang Guoduan	Prof. Zhang Daopei	Prof. Chen Lihui	Mr. Chow Kwok Wai	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	98	98	146	342
Other emoluments								
Salaries and other benefits	1,281	1,038	130	130	—	—	—	2,579
Contributions to retirement benefits schemes	14	14	10	11	—	—	—	49
Performance related incentive payments								
Share-based payment	—	—	—	—	—	—	—	—
Incentive paid on joining	—	—	—	—	—	—	—	—
Total emoluments	1,295	1,052	140	141	98	98	146	2,970
Pensions paid to directors	—	—	—	—	—	—	—	—
Payments for loss of office paid to directors, former directors and chief executive by:								
The Company	—	—	—	—	—	—	—	—
The Company's subsidiaries	—	—	—	—	—	—	—	—
	1,295	1,052	140	141	98	98	146	2,970

Mr. Ke Jixiong is a director who is also Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

For the years ended 31 December 2013 and 2012, neither the chief executive nor any of the directors waived or agreed to waive any emoluments.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2012: two) were directors and chief executive of the Company whose emoluments are included in the disclosures in note 13 above. The emoluments of the remaining three (2012: three) individuals were as follows:

	2013	2012
	RMB'000	RMB'000
Salaries and other benefits	**1,379**	1,288
Contributions to retirement benefits schemes	**38**	26
	1,417	1,314

Their emoluments were within the following bands:

	2013	2012
	No. of employees	No. of employees
HK$ nil to HK$1,000,000 (equivalent to RMB nil to RMB793,000)	**2**	2
HK$1,000,001 to HK$1,500,000 (equivalent to RMB793,001 to RMB1,189,500)	**1**	1

No emoluments have been paid to these individuals as an inducements to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2013 and 2012.

15. DIVIDENDS

	2013	2012
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2012 final dividend of HK$0.053 per share (2011: HK$0.068 per share)	**46,750**	55,200
2013 interim dividend of HK$0.039 per share (2012: HK$0.035 per share)	**34,000**	28,700
	80,750	83,900
Proposed final dividend of HK$0.063 per share (2012: HK$0.053 per share)	**54,000**	42,500

On 3 March 2014, the Board proposed a final dividend in respect of the year ended 31 December 2013 of HK$69,300,000, representing HK$0.063 per share. Such dividend is to be approved by the shareholders at the annual general meeting of the Company. These financial statements do not reflect this dividend payable.

16. EARNINGS PER SHARE - BASIC

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

	2013	2012
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**290,466**	250,240

	2013	2012
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,100,000,000**	1,100,000,000*

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

* Adjusted for bonus issue in 2013. The weighted average number of shares, and resulting earnings per share, for the year ended 31 December 2012, has been adjusted for the new 100,000,000 shares issued on 28 May 2013 (Note 25) as if such bonus issue had occurred at the beginning of the earliest period presented.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2012	578,477	609,069	8,258	6,467	298,698	1,500,969
Additions	10,933	98	656	1,280	500,140	513,107
Transfer	87,010	97,795	2,210	—	(187,015)	—
Disposals/write off	(50)	—	(73)	(6)	—	(129)
At 31 December 2012 and 1 January 2013	**676,370**	**706,962**	**11,051**	**7,741**	**611,823**	**2,013,947**
Additions	**521**	**236**	**947**	**6**	**272,523**	**274,233**
Transfer	**194,067**	**195,676**	**821**	**288**	**(390,852)**	—
Disposals/write off	—	**(3,349)**	**(48)**	**(68)**	—	**(3,465)**
At 31 December 2013	**870,958**	**899,525**	**12,771**	**7,967**	**493,494**	**2,284,715**
DEPRECIATION						
At 1 January 2012	(46,149)	(92,782)	(4,489)	(1,577)	—	(144,997)
Provided for the year	(19,078)	(35,334)	(1,680)	(807)	—	(56,899)
Disposals/write off	6	—	56	5	—	67
At 31 December 2012 and 1 January 2013	**(65,221)**	**(128,116)**	**(6,113)**	**(2,379)**	—	**(201,829)**
Provided for the year	**(22,942)**	**(39,577)**	**(1,657)**	**(858)**	—	**(65,034)**
Disposals/write off	—	**452**	**39**	**50**	—	**541**
At 31 December 2013	**(88,163)**	**(167,241)**	**(7,731)**	**(3,187)**	—	**(266,322)**
CARRYING VALUES						
At 31 December 2013	**782,795**	**732,284**	**5,040**	**4,780**	**493,494**	**2,018,393**
At 31 December 2012	611,149	578,846	4,938	5,362	611,823	1,812,118

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

Buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	10 - 20 years
Office equipment	5 years
Motor vehicles	5 years

Buildings are located on land in the PRC and are held under medium-term lease.

The Group has pledged several buildings with a net book value of approximately RMB215,808,000 (2012: RMB208,103,000) to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold lands in the PRC:		
– Medium-term lease	372,429	380,303
Analysed for reporting purpose as:		
– Current assets	7,874	7,916
– Non-current assets	364,555	372,387
	372,429	380,303

The Group's prepaid lease payments amounts represent the payments for land use rights situated in the PRC. The remaining unexpired lease term of the leasehold lands is in range of 36 to 47 years (2012: 37 to 48 years) for the year ended 31 December 2013.

19. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	119,864	110,952
Work in progress	89	142
Finished goods	20,400	32,194
	140,353	143,288

20. TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	613,619	309,901
Prepayments to suppliers	94,632	—
Other prepayments	1,106	1,920
Other tax recoverable	21,228	18,371
Others	—	20
	730,585	330,212

20. TRADE AND OTHER RECEIVABLES (continued)

In 2013, the Group approved to allow the change of credit period to 90 to 120 days (2012: 60 to 90 days) to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	2013	2012
	RMB'000	RMB'000
0 to 30 days	172,189	144,901
31 to 60 days	156,328	148,492
61 to 90 days	164,814	16,508
91 to 120 days	120,288	—
	613,619	309,901

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

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

As at 31 December 2013, no trade receivable balance was past due nor impaired (2012: RMB16,508,000 was past due within 30 days). No impairment is considered necessary for these balances because they have been fully settled after the end of the reporting period. The Group does not hold any collateral over these balances.

It is the Group's policy to provide fully for any receivables aged over two years because they are considered not recoverable. As at 31 December 2013 and 2012, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

Bank balances of the Group carry market interest rates of range from 0.001% to 0.385% (2012: 0.001% to 3.2%) per annum as at 31 December 2013.

Pledged bank deposits of the Group carry fixed interest rates of 3.75% (2012: 3.5%) per annum as at 31 December 2013.

22. TRADE AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Trade payables	100,538	155,880
Notes payables	150,000	—
	250,538	155,880
Other payables for acquisition of plant and equipment	43,115	13,890
Other tax payables	13,234	12,887
Accrued staff costs and employee social security fund	6,972	11,937
Accrued electricity expenses	9,522	6,914
Other accrued expenses	6,868	5,983
	330,249	207,491

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

	2013 RMB'000	2012 RMB'000
Within 30 days	67,241	84,601
31 to 90 days	33,297	71,279
	100,538	155,880

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

	2013 RMB'000	2012 RMB'000
91 to 180 days	150,000	—

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

23. BANK BORROWINGS

	2013 RMB'000	2012 RMB'000
Secured bank borrowings	**474,834**	443,625
Unsecured bank borrowings	**495,967**	484,110
	970,801	927,735
Carrying amount repayable:		
Within one year	**573,801**	404,735
More than one year, but not exceeding two years	**372,000**	128,100
More than two years, but not exceeding five years	**25,000**	394,900
	970,801	927,735
Less: Amounts due within one year shown under current liabilities	**(573,801)**	(404,735)
Amounts shown under non-current liabilities	**397,000**	523,000
Analysed as:		
Fixed-rate borrowings	**171,000**	171,000
Variable-rate borrowings	**799,801**	756,735
	970,801	927,735

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

	2013	2012
Effective interest rate:		
Fixed-rate borrowings		
RMB	**6.60%**	6.89% to 7.54%
Variable-rate borrowings		
HK$	**HIBOR plus 1.65% to 3.25%**	HIBOR plus 3.00%
US$	**LIBOR plus 1.70%**	LIBOR plus 1.70%
RMB	**Benchmark Borrowing Rate to 125% of Benchmark Borrowing Rate**	Benchmark Borrowing Rate to 135% of Benchmark Borrowing Rate

23. BANK BORROWINGS (continued)

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

	2013 RMB'000	2012 RMB'000
Amounts shown under current liabilities:		
Fixed-rate borrowings		
RMB	171,000	171,000
Variable-rate borrowings		
HK$	112,541	40,225
US$	91,260	93,510
RMB	199,000	100,000
	573,801	404,735
Amounts shown under non-current liabilities		
Variable-rate borrowings		
RMB	397,000	523,000
	970,801	927,735

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

	2013 RMB'000	2012 RMB'000
Borrowings are secured by assets of the Group (Note)	474,834	443,625
Borrowings are cross-guaranteed among subsidiaries of the Company	495,967	484,110
	970,801	927,735

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

	2013 RMB'000	2012 RMB'000
Bank deposits	60,170	45,170
Property, plant and equipment	215,808	208,103
Land use rights, classified as prepaid lease payments	261,041	274,702
	537,019	527,975

24. DEFERRED TAXATION

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

	Undistributable profits of PRC subsidiaries
	RMB'000
At 1 January 2012, 31 December 2012 and 1 January 2013	—
Charge to profit or loss	3,500
At 31 December 2013	3,500

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries of the Group from 1 January 2008 onwards. As at 31 December 2013, deferred tax liability has been provided in respect of RMB35,000,000 (2012: nil) undistributed earnings of the Group's PRC subsidiaries. Deferred tax has not been provided in respect of the remaining temporary differences attributable to the undistributed earnings as the Group is in a position to control the quantum and timing of the distribution thereof, deferred taxation is only provided to the extent that such earnings are estimated to be distributable in the foreseeable future.

As at 31 December 2013, the aggregate amount of undistributed earnings of the Group's PRC subsidiaries in respect of which deferred liability tax has not been provided for were approximately RMB1,336,425,000 (2012: RMB1,098,064,000).

25. SHARE CAPITAL

	Number of shares	**Share capital**
		HK$
Ordinary shares of HK$0.10 each		
Authorised:		
As at 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	10,000,000,000	1,000,000,000
Issued and fully paid:		
As at 1 January 2012, 31 December 2012 and 1 January 2013	1,000,000,000	100,000,000
Bonus issue	100,000,000	10,000,000
As at 31 December 2013	1,100,000,000	110,000,000

	2013	2012
	RMB'000	RMB'000
Presented in RMB		
Share capital	**95,580**	87,680

On 28 May 2013, 100,000,000 shares of HK$0.10 each of the Company, amounting to HK$10,000,000 (approximately RMB7,900,000), were issue at par value by way of transfer from the share premium account of the Company. Such bonus issue was approved by the Shareholders of the Company at the annual general meeting held on 3 May 2013.

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

26. RESERVES

THE GROUP

	Capital reserve RMB'000 (Note a)	Special reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note c)	Total RMB'000
At 1 January 2012	257,299	67,866	96,068	421,233
Appropriation	—	—	25,470	25,470
At 31 December 2012 and 1 January 2013	**257,299**	**67,866**	**121,538**	**446,703**
Appropriation	—	—	**29,990**	**29,990**
At 31 December 2013	**257,299**	**67,866**	**151,528**	**476,693**

THE COMPANY

	Share premium RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	396,269	5,690	34,130	436,089
Loss and total comprehensive expense for the year	—	—	(4,244)	(4,244)
Dividends recognised as distribution	—	—	(83,900)	(83,900)
Transfer to retained profits	(71,200)	—	71,200	—
At 31 December 2012 and 1 January 2013	**325,069**	**5,690**	**17,186**	**347,945**
Loss and total comprehensive expense for the year	—	—	**(2,886)**	**(2,886)**
Bonus issue (Note 25)	**(7,900)**	—	—	**(7,900)**
Dividends recognised as distribution	—	—	**(80,750)**	**(80,750)**
Transfer to retained profits	**(92,250)**	—	**92,250**	—
At 31 December 2013	**224,919**	**5,690**	**25,800**	**256,409**

Note a: Capital reserve represents the deemed contribution from shareholders of the Company as the result of debts waived by the shareholders of the Company in 2009 and 2010 and transfer of shares to a consulting company pursuant to the initial public offering of the Company in 2010.

Note b: The special reserve represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired by the Group pursuant to the corporate reorganisation, and the nominal value of the Company's shares issued for the acquisition.

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

27. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

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

Both the Group and the employee contribute a fixed percentage of the relevant payroll, subject to a maximum contribution of HK$1,250 (approximately RMB980) (2012: HK$1,000 to HK$1,250 (approximately RMB819 to RMB1,000)) to the MPF Scheme.

(b) Social security and benefits for PRC employees

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

The total cost charged to profit or loss of RMB2,382,000 (2012: RMB2,210,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2013.

28. RELATED PARTY DISCLOSURE

Compensation of key management personnel

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

	2013 RMB'000	2012 RMB'000
Short-term benefits	4,620	4,633
Post-employment benefits	123	116
	4,743	4,749

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

29. MAJOR NON-CASH TRANSACTION

For the year ended 31 December 2013

The Group's acquisition of property, plant and equipment was settled through deposits paid in the prior years amounting to approximately RMB26,594,000 (2012: RMB140,648,000).

For the year ended 31 December 2012

The Group's acquisition of land use right was settled through deposits paid in the prior years amounting to approximately RMB60,683,000.

30. OPERATING LEASE

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise and staff quarter during the year ended 31 December 2013 were RMB246,000 (2012: RMB324,000).

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:

	2013 RMB'000	2012 RMB'000
Within one year	249	204
In the second to fifth year inclusive	274	17
	523	221

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

31. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	104,844	158,962

32. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Group at 31 December 2013 and 2012 are as follows:

Name	Place of incorporation	Place of operation	Paid-up issued share capital	Proportion of ownership interest and voting power held by the Company		Principal activities
				2013	2012	
Xi Yuan BVI	British Virgin Islands	Hong Kong	1 ordinary share of US$1	**100% (directly)**	100% (directly)	Investment holding
Sunwell	Hong Kong	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100% (indirectly)**	100% (indirectly)	Investment holding
Huaxiang*	PRC	PRC	RMB442,334,612	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper and other products
Xiyuan*	PRC	PRC	HK$300,000,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper, wall paper backing paper and copy paper
Youlanfa*	PRC	PRC	RMB128,880,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of wrapping tissue paper, copy paper and other products

* These subsidiaries are wholly foreign owned enterprises.

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

33. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**128,506**	91,420
Amount due from a subsidiary	**337,348**	371,900
	465,854	463,320
CURRENT ASSETS		
Prepayment	**61**	83
Bank balances and cash	**1,936**	15,029
	1,997	15,112
CURRENT LIABILITIES		
Other payables and accrued expenses	**3,321**	2,582
Bank borrowings	**112,541**	40,225
	115,862	42,807
NET CURRENT LIABILITIES	**(113,865)**	(27,695)
NET ASSETS	**351,989**	435,625
CAPITAL AND RESERVES		
Share capital (Note 25)	**95,580**	87,680
Reserves (Note 26)	**256,409**	347,945
TOTAL EQUITY	**351,989**	435,625

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Revenue	724,793	1,224,297	1,428,235	1,434,379	**1,531,102**
Profit before tax	183,770	294,832	319,257	294,115	**367,288**
Income tax expense	(13,093)	(38,283)	(43,290)	(43,875)	**(76,822)**
Profit and total comprehensive income for the year	170,677	256,549	275,967	250,240	**290,466**
Profit and total comprehensive income attributable to owners of the Company	165,941	256,549	275,967	250,240	**290,466**

	As at 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	1,305,329	2,272,281	2,523,920	3,084,992	**3,474,572**
Total liabilities	(750,482)	(776,061)	(751,733)	(1,146,465)	**(1,326,329)**
	554,847	1,496,220	1,772,187	1,938,527	**2,148,243**
Equity					
Equity attributable to owners of the Company	554,847	1,496,220	1,772,187	1,938,527	**2,148,243**
	554,847	1,496,220	1,772,187	1,938,527	**2,148,243**

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