ZHENGYE
INTERNATIONAL

正業國際控股有限公司
ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

Incorporated in Bermuda with limited liability
Stock Code : 3363

2015 年報
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Hu Zheng *(Chairman)*
Mr. Hu Hancheng
(Vice-Chairman and Chief Executive Officer)
Mr. Hu Hanchao
(Vice-Chairman and Chief Operating Officer)
Mr. Hong Guanghua
(resigned on 31 December 2015)
Mr. Zhang Xiaoming
(resigned on 31 December 2015)

Non-Executive Director

Mr. Hu Hanxiang

Independent Non-Executive Directors

Mr. Chung Kwok Mo John
Mr. Wu Youjun
Prof. Zhu Hongwei

Company Secretary

Mr. Kersen Chan

Audit Committee

Mr. Chung Kwok Mo John *(Chairman)*
Mr. Wu Youjun
Prof. Zhu Hongwei

Remuneration Committee

Mr. Chung Kwok Mo John *(Chairman)*
Mr. Wu Youjun
Prof. Zhu Hongwei
Mr. Hu Zheng

Nomination Committee

Mr. Hu Zheng *(Chairman)*
Mr. Chung Kwok Mo John
Mr. Wu Youjun
Prof. Zhu Hongwei

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Headquarters and Principal Place of Business in China

27th Floor, North Building
Tower 3, Da Dong Yu International Center
101 Dongyuannan Road
East District, Zhongshan, Guangdong
The People's Republic of China

Principal Place of Business in Hong Kong

Suite 1913, 19th Floor
Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan, Kowloon
Hong Kong

Authorized Representatives

Mr. Hu Zheng
Mr. Kersen Chan

Legal Adviser

As to Bermuda law
Conyers Dill & Pearman

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Share Registrar and Transfer Office in Bermuda

MUFG Fund Services (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

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

Share Information

Stock code: 3363

Company's Official Website Address

http://www.zhengye-cn.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual results report of Zhengye International Holdings Company Limited (the "Company" or "Zhengye International", together with its subsidiaries, our "Group" or the "Group") for the year ended 31 December 2015 (the "Year").

Business Review

Driven by the task in 2015 under the "Twelfth Five-Year Plan" to close down outdated production facilities, the overcapacity problem in the Chinese domestic paper-making industry has been eased. Along with the continuous optimization of the structure of the paper-making industry and the Group's synchronization with the pace of development of the industry, the Group sought to integrate and allocate internal resources during the year, ready to be fully prepared for industry recovery at any time. Upon completion of the technological transformation projects during the year for Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited*（中山聯合鴻興造紙有限公司）("Lian He") and Zhongshan Ren Hing Paper Manufacturing Company Limited*（中山聯興造紙有限公司）("Lian Xing") (collectively referred to as "Lian He and Lian Xing") previously acquired by the Group, the corrugated medium paper production lines at the two plants commenced full operation. The new capacity will further strengthen the integration of the Group's upstream industrial chain, gradually reflecting the advantages of the Group's capacity allocation. In addition, the Group also took in the existing customers from the new plants during the year, which broadened the customer base swiftly and contributed revenue to the Group. By virtue of its own corporate scale, extensive industry experience and proven management team, the Group yet managed to maintain stable business development in a highly competitive environment.

I am pleased to announce that the Group's overall turnover amounted to approximately RMB1,807,765,000 for the year ended 31 December 2015, a year-on-year increase of 5.46% (2014: RMB1,714,190,000). The Group's gross profit was RMB343,738,000 and gross profit margin was about 19.01%. Profit and total comprehensive income for the period attributable to owners of the Company was RMB41,136,000 slightly rose with last year. Basic earnings per share were approximately RMB8 cents.

* *For identification purpose only*

CHAIRMAN'S STATEMENT

Outlook and Acknowledgements

China's structural reform is leading a new normal pattern of economic development, which means that the market places emphasis on quality development and that the period of impetuous growth has gone for ever. During the macro-economic slowdown, oversupply persists in the paper-making industry amid weak demand growth. Despite intense competition in the industry, good progress has been made in closing down facilities with overcapacity under the "Twelfth Five-Year Plan". It is believed that industry concentration will be further increased and gradually create a healthier business environment for the paper-making industry. As a sizable paper-based packaging service provider, the Group hopes, by taking advantage of the timing of the industry reshuffle, to increase its market share and push for more space for development and growth in the coming one year.

The Group used to aim at improving and expanding production capacity as well as integrating the vertical layout of the upstream and downstream operations on the industrial chain. The period of capital expenditure commitments will come to an end as all kinds of strategic investment have reaped remarkable results successively. Next year, the Group's focus will be internal operations. We will continue to optimize the allocation of resources aggressively, step up the implementation of internal governance and strengthen cost control in order to establish a more solid business foundation that meets market challenges and prepares for long-term development for the future.

With the rapid development of e-commerce, the massive amount of transactions on the e-commerce platform has opened our mind to new ideas on the development of the paper-making industry. To capture the strong demand of e-commerce for paper-based packaging products, the Group will look for more opportunities for cooperation with e-commerce, and commit more resources to the research on production technology in the hope of introducing more varieties of paper-based packaging products in future to penetrate into more different industries such as the food, condiment and electronics industries. In addition, the government will introduce the "Made in China 2025" strategic plan this year, which emphasizes the need for intelligent, information technology-based and green manufacturing. With the advent of the "Industry 4.0" era of industrial revolution, the paper-making industry as a traditional industry must also transform and upgrade itself in line with the trend of industrial reform. We believe that the momentum of changes in China's paper-making industry will advance irresistibly.

The Group, as an industrial pioneer, has great ambitions for the sustainable development of its business. Amid the rapidly changing market environment, the Group needs to both work internally and externally as well as assess changes in the industry in order to strengthen its market competitiveness. But in the long run, the Group will continue to improve the production efficiency, capacity and quality of the whole technological process of paper making as well as bring in new equipment and new technology for making the production system an intelligent one to usher in the arrival of the "Industry 4.0" era of intelligence with a new gesture.

On 1 April 2016, Mr. Hu Hanchao will redesignate as the Chairman of the Group, while Mr. Hu Hancheng and I will redesignate as Joint Chief Executive Officers; it makes the operations more efficiently and bring the Group going to a new chapter. In future, we will continue to lead the Group's team to go through various obstacles and work together to build on our strengths. We will move forward to capitalize on the rapidly changing market trends and expand our own advantages as an industrial leader with an aim to capturing more market share, trying to maximize interest for our shareholders.

On behalf of the Board, I would like to extend my heartfelt gratitude to all customers, business partners, suppliers, banks and all shareholders for their support and great kindness to the Group.

Hu Zheng
Chairman

Hong Kong, 29 March 2016

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

China's economic development has entered a new normal phase which centres on improving the quality and efficiency of economic development. In 2015, the GDP per annual capita growth slowed to 6.9%, lower than market expectations, while the average of China Manufacturing Purchasing Managers' Index was 49.9, also worse than the average of the past five years, indicating that the Chinese economy has already entered a new phase. Moreover, sales by domestic "white goods" enterprises fell as well along with the withdrawal of the national policy for home appliance subsidies. Together with the impact of various factors such as fluctuations in the real estate market, the weak economic environment and market sentiment continued to cloud the business environment in the paper-making industry. However, significant progress was made during the year following the issue of the "Twelfth Five-Year Plan for the Development of the Paper-making Industry" jointly by the National Development and Reform Commission, Ministry of Industry and Information Technology and the State Forestry Administration. Under the plan, the stringent environmental policy and the upgrade action for closing down outdated production facilities had mitigated the overcapacity problem in the paper-making and paper products industries. This improvement was particularly obvious in Southern China. For Zhengye International, the leading paper-making, packaging and corrugated medium paper service provider in the industry, the policy for closing down non-compliant enterprises had created a space for development for the Group. Moreover, market share was further increased after the Group completed capacity allocation and took in more new customers during the year. In the volatile market environment, the Group still managed to maintain steady business growth.

In the face of opportunity arising from the industry's structural consolidation, the Group was the first ahead of others to optimize its business layout during the year by carrying out a technological transformation project to Lian He acquired last year. Upon resumption of production and debugging, the efficiency of production facilities was increased successfully to release the capacity for corrugating medium paper which contributed income to the Group. For the year ended 31 December 2015, overall revenue was RMB1,807,765,000, representing an increase of 5.46% compared with RMB1,714,190,000 for the year ended 31 December 2014. In particular, revenue from paper-based packaging products and the corrugated medium paper business represented 44.79% and 55.21%, respectively (2014: 56.87% and 43.13%, respectively) of the total revenue of the Group. Due to the completion of technical improvement of Lian He paper mill during the Year, it made the Group's gross profit margin was back to the industry level from 17.03% last year to 19.01% of the Year, slightly rose by 1.98 percentage point. Profit and total comprehensive income for the period attributable to owners of the Company was RMB41,136,000 which was slightly growth 4.19% as the corresponding period last year. Basic earnings per share were approximately RMB8 cents.

Breakdown of the Group's principal activities

	2015			2014		
	Turnover RMB'000	**Percentage of total revenue %**	**Gross profit margin %**	Turnover RMB'000	Percentage of total revenue %	Gross profit margin %
Paper-based packaging Products						
Corrugated cartons	**595,764**	**32.95**		738,041	43.05	
Honeycomb paper-based products	**213,987**	**11.84**		236,866	13.82	
Subtotal	**809,751**	**44.79**	**19.20**	974,907	56.87	18.89
Corrugated medium paper						
AA grade	**810,242**	**44.82**		550,186	32.10	
C grade	**187,772**	**10.39**		148,979	8.69	
Wasted paper raw material	**–**	**–**		40,118	2.34	
Subtotal	**998,014**	**55.21**	**17.47**	739,283	43.13	14.57
TOTAL	**1,807,765**	**100.00**	**19.01**	1,714,190	100.00	17.03

MANAGEMENT DISCUSSION AND ANALYSIS

Paper-based packaging products

The paper-based packaging products offered by the Group were mainly corrugated cartons and honeycomb paper-based products. Major customers were the leading domestic manufacturers of small home appliances and air conditioners. During the year, the overall environment in the "white goods" industry remained sluggish, with a decelerated demand for paper-based packaging products. Given that the supply and demand situation tended to become saturated, it caused the decline in the sales volume of paper-based packaging products. Also, the average selling price of paper-based packaging products was more than the decrease in the prices of raw materials, which had an impact on the revenue for the year. In 2015, the overall revenue from paper-based packaging products was RMB809,751,000, down by 16.94% (2014: RMB974,907,000). In particular, corrugated cartons and honeycomb paper-based products accounted for 73.57% and 26.43% (2014: 75.70% and 24.30%) of the overall revenue from paper-based packaging products. Despite the declined business performance of paper-based packaging products during the year, the Group managed to retain a leading market position in terms of output and sales volume, thanks to its state-of-the-art core technology and improved production deployment.

Turnover by customer at paper-based packaging products

	2015		2014	
	RMB'000	**Percentage of total revenue (%)**	RMB'000	Percentage of total revenue (%)
Household air conditioners and small home appliances manufacturers	**676,269**	**83.52**	839,987	86.16
Food and seasoning manufacturer	**100,822**	**12.45**	107,470	11.02
Other	**32,660**	**4.03**	27,450	2.82
TOTAL	**809,751**	**100.00**	974,907	100.00

For the year ended 31 December 2015, turnover of the Group derived from the manufacturers of household air conditioners and small home appliances amounted to RMB676,269,000, representing 83.52% of the total revenue from paper-based packaging products. These manufacturers were the major customer base of the Group. In order not to be hit vulnerably by the volatility in a single market, the Group was proactively expanding its sales network and seeking a more diverse customer base by further expanding into the food, condiment and electronics industries. In future, the Group will make good use of its existing production capacity resources, trying to explore more business opportunities in different markets.

Corrugated medium paper

Upon completion of the Group's acquisition of Lian He located in Zhongshan City, Guangdong Province last year, the technological transformation project for its production line was carried out and completed within the year, having expanded the designed annual capacity for corrugated medium paper. With the Group's rich operational experience, the plant successfully turned loss to profit in the first half of 2015, making significant revenue contribution to the Group. In 2015, turnover from the corrugated medium paper business was RMB998,014,000, a year-on-year increase of 35.00% (2014: RMB739,283,000). During the year, the average selling price of corrugated medium paper was roughly the same, but the corrugated medium papers had a huge increment in quantity and quality under the modification in equipment. At the same time, in the stringent cost control measurement, the gross profit margin of corrugated medium paper division increased from 14.57% last year to 18.86% for the year, it made the contribution in the growth of turnover for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Capacity and capacity utilisation rate

The Group has a vertically integrated industrial chain. From the recycling of waste paper, manufacturing of high-strength corrugated medium paper, production of corrugated cartons and honeycomb paper products to packaging services, the Group delivers a seamlessly connected one-stop service to its customers.

Paper-based packaging products

For the year ended 31 December 2015, the Group had a total of 14 production lines (including 9 corrugated cartons production lines and 5 honeycomb paper-based products production lines) which are mainly located in eight cities including Zhongshan, Zhuhai, Wuhan, Shijiazhuang, Zhengzhou and Hefei. The Group's total designed annual capacity for corrugated cartons reached 836,325,000 square meters, whereas that for honeycomb paper-based products was 25,581,000 square meters, representing a total decrease of 4.32% from 2014. The improved production deployment enabled the Group to create a synergistic effect on the cost of production, integration of the industrial chain and customer services, and to expand the advantages over the overall operational efficiency.

		2015			2014	
	Design capacity ’000 sq.m.	**Actual Capacity ’000 sq.m.**	**Capacity utilization rate (%)**	Design capacity ’000 sq.m.	Actual Capacity ’000 sq.m.	Capacity utilization rate (%)
Zhongshan						
No.1 corrugated cartons production line	**38,880**	**20,802**	**53.50**	38,880	29,361	75.52
No.3 corrugated cartons production line	**38,880**	**18,743**	**47.51**	38,880	18,121	46.61
No.4 corrugated cartons production line	**N/A**	**N/A**	**N/A**	38,880	29,980	77.11
No.7 honeycomb paper-based product production line	**4,312**	**4,061**	**94.18**	4,312	3,997	92.69
No.8 honeycomb paper-based product production line	**3,525**	**3,305**	**93.76**	3,525	3,141	89.11
New No.2 corrugated cartons production line	**184,140**	**68,269**	**37.07**	184,140	51,714	28.08
Zhuhai						
No.5 corrugated cartons production line	**72,900**	**54,587**	**74.88**	72,900	46,025	63.13
No.6 corrugated cartons production line	**45,360**	**12,953**	**28.56**	45,360	13,844	30.52
Shijiazhuang						
No.9 corrugated cartons production line	**90,396**	**14,838**	**16.41**	90,396	18,736	20.73
No.10 honeycomb paper-based product production line	**6,696**	**3,031**	**45.27**	6,696	4,721	70.50
Zhengzhou						
No.11 corrugated cartons production line	**150,660**	**23,165**	**15.38**	150,660	25,796	17.12
No.12 honeycomb paper-based product production line	**4,352**	**4,144**	**95.22**	4,352	4,148	95.31
Wuhan						
No.13 corrugated cartons production line	**110,484**	**6,160**	**5.58**	110,484	7,813	7.07
No.14 honeycomb paper-based product production line	**6,696**	**6,386**	**95.37**	6,696	6,090	90.94
Hefei						
No.15 corrugated cartons production line	**104,625**	**348**	**0.33**	104,625	13,928	13.31
TOTAL corrugated cartons	**836,325**	**219,595**	**26.26**	875,205	255,318	29.17
honeycomb paper-based product	**25,581**	**20,927**	**81.81**	25,581	22,097	86.38

MANAGEMENT DISCUSSION AND ANALYSIS

Corrugated medium paper

The main production base of corrugated medium paper is located in Zhongshan. For the year ended 31 December 2015, the Group had 7 corrugated medium paper production lines with a total designed annual capacity of 800,000 tons, making the Group one of the leading corrugated paper producers in Guangdong region.

	2015			2014		
	Planned operation (hours)	**Actual operation (hours)**	**Effective rate (%)**	Planned operation (hours)	Actual operation (hours)	Effective rate (%)
Zhongshan Yong Fa						
No. 1 paper machine	**8,292**	**7,493**	**90.36**	8,351	7,767	93.00
No. 2 paper machine	**8,121**	**7,531**	**92.73**	7,791	7,377	94.69
No. 3 paper machine	**8,220**	**7,495**	**91.18**	6,788	6,185	91.12
No. 5 paper machine	**7,938**	**7,290**	**91.84**	8,103	7,357	90.79
Lian He and Lian Xing※						
No. 1 paper machine	**8,585**	**6,561**	**76.42**	6,485	4,692	72.35
No. 2 paper machine	**8,541**	**6,890**	**80.67**	6,554	1,868	28.50
No. 3 paper machine	**8,535**	**7,963**	**93.30**	6,507	6,168	94.79

※ The operation of Lian He and Lian Xing counted beginning at 1 April 2014.

Prospects

In 2015, the paper-making industry was in a phase of transformation and adjustment. Driven by government policy, the industry's overcapacity problem was improved, while the pace of introducing additional capacity to the industry slowed down significantly over the previous year. In 2016, many enterprises will continue to face the crisis of being forced out from the industry, whereas the Group, as the leading paper-making enterprise across the country, will not be scared away by the impact of the market, and will take advantage of the opportunity arising from the restructuring of the industry by further expanding the business scale to capture a market share. In the coming year, the Group will continue to optimize and integrate the internal architecture and resources to maintain a sound and stable business foundation that supports long-term development.

The Group will strengthen control over cost expenditure and enhance internal governance standard. During the year, the Group successfully optimized the internal structure of Lian He and Lian Xing by adopting a performance indicators evaluation method which helped the plant turn loss into profit quickly. The Group will continue to use performance indicators for stringently monitoring the actual financial and operating performance of each work unit and optimize the allocation of internal resources for enhancing the management and operational efficiency. Moreover, hit by the devaluation of Renminbi, the cost of imported raw materials such as waste paper for the paper-making industry had risen. In order to maintain its profitability, the Group will reduce purchases of waste paper from abroad, and replace imported raw materials with waste paper from its paper recycling networks in China to avoid the impact of price volatility. In addition, the Group will take steps to reduce foreign currency loans gradually, to lower financing costs and foreign exchange losses.

The Group believes that the quality of production technology is an impetus for business development. In future, we will continue to commit a reasonable proportion of revenue as expenditure for research and development in order to maintain the Group's core competitiveness. Through an experienced technical team, the Group will carry out research and improvement on production process technology and equipment on a regular basis, such as the enhancement of technology for the production of pulp and other production procedures as well as research and development of new varieties of domestic paper to expand internal production efficiency and boost long-term business development.

MANAGEMENT DISCUSSION AND ANALYSIS

Under the pressure from the industry's transformation and upgrade, the market calls for increasingly high environmental requirements for paper manufacturers. The Group has sound energy-saving and emission reduction facilities. Whether it is wastewater discharge, carbon emissions or chemical gas emissions, we stick close to government's Grade 1 environmental standards. The Group will continue its routine maintenance work and keep an eye on government policies and regulations so that it can carry out upgrade projects for environmental protection equipment in a timely manner as a contribution to protecting the environment.

In the weak market atmosphere, the Group seized opportunity to improve the capacity allocation during the year, while next year's focus will be to optimize the internal quality by optimizing and integrating internal resources aggressively to consolidate business foundation. Looking to the future economic recovery, the Group can collaborate with internal and external parties as market demand begins to pick up in order to seize business opportunities with the best gesture. The Group will deal with industry's challenges cautiously and optimistically in future, expand its own strengths and take advantage of the position as an industrial leader to maintain stable business growth for generating a steady investment return for our shareholders.

Cost of sales

The Group's cost of sales increased from RMB1,422,291,000 in 2014 to RMB1,464,027,000, representing a growth of 2.93.

Paper-based packaging products

The cost of sales of paper-based packaging products were RMB654,278,000 (2014: RMB790,750,000), representing a decrease of 17.26%.

Corrugated medium paper

The cost of sales of corrugated medium paper were RMB809,749,000 (2014: RMB631,541,000), representing a growth of 28.22%, this is mainly due to the normal productions of Lian He paper mill during the year.

Gross profit and gross profit margin

The gross profit recorded for the Year is RMB343,738,000, representing an increase of 17.76% as compared with RMB291,899,000 in Year 2014. The gross profit margin rose from 17.03% in Year 2014 to 19.01% during the Year. The increase in gross profit margin is mainly attributable to the completion on technical improvement of Lian He during the Year, it resulted the back on track for the Group's gross profit margin.

Paper-based packaging products

The gross profit from paper-based packaging products for 2015 was RMB155,473,000 (2014: RMB184,157,000), representing a decrease of 15.58%. The overall gross profit margin for 2015 was 19.20% (2014: 18.89%), up by 0.31 percentage points.

Corrugated medium paper

The gross profit from corrugated medium paper for 2015 was RMB188,265,000 (2014: RMB 107,742,000), representing a growth of 74.74%. The overall gross profit margin for 2015 was 17.47% (2014: 14.57%), up by 2.90 percentage points.

Other income, other gains and losses

Other income, other gains and losses mainly included income from interest RMB3,836,000 (2014: RMB4,800,000), government subsidies RMB18,270,000 (2014: RMB21,519,000) and net amount of exchange losses RMB14,716,000 (2014: net amount of exchange gains RMB30,588,000).

Distribution and selling expenses

The distribution and selling expenses of the Group decreased by approximately 4.57% from RMB67,927,000 for the Year 2014 to RMB64,823,000 for the Year. The distribution and selling expenses during the Year mainly included during the Year are salaries of salesmen, transportation costs and business advertisement and promotion.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

The Group's administrative expenses increased by approximately 6.84% from RMB112,376,000 for the Year 2014 to RMB120,062,000 for the Year. The administrative and other expenses during the Year mainly included during the Year are salaries of management, staff welfare, rent and depreciation.

Finance costs

Finance costs of the Group slipped by approximately 6.05% from RMB66,316,000 for the Year 2014 to RMB62,302,000 for the Year.

Interest rates of bank borrowings were at variable rates ranging from 2.40% to 6.69% for the Year, compared with 5.60% to 7.80% for the same period of last year. The weighted average interest rates under bank borrowings in fixed rate, bank borrowings in variable rate, obligations under finance leases in fixed rate and other borrowings in variable rate during the Year were 4.81%, 4.57%, 6.12% and 10.62% respectively (2014: 5.56%, 6.18%, 6.12% and 11.51% respectively).

The bank borrowings, other borrowings and obligations under finance leases amounted to RMB893,451,000 as at 31 December 2015, compared with RMB941,466,000 as at 31 December 2014.

Research and development expenses

Research and development expenses of the Group increased by 13.53% from RMB43,296,000 in the Year 2014 to RMB49,153,000 during the Year. The increase was mainly due to our goal to improve the competitiveness of the Group's products and develop new products in response to the demand from customers to conduct research on new technology and new process to enhance production efficiency and product quality.

Income tax expense

During the Year, the Group's income tax expense was RMB14,025,000 (2014: RMB11,277,000), accounting for 24.73% of the total profit (2014: 18.87%).

Profit and total comprehensive income

The Group's profit and total comprehensive income for the Year was RMB42,693,000, the total comprehensive income for the Year attributable to owners of the Company was RMB41,136,000, represented an increase of 4.19% compared with RMB39,480,000 for the Year 2014.

Exclusion the impact of net exchange gains or losses, the operating profit after tax during the Year had increased significantly over the last year, it was in line with the growth of gross profit during the Year.

Closure of register of members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 14 June 2016 to Friday, 17 June 2016 (both days inclusive). During the period, no transfer of shares will be registered. In order to qualify to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 13 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial Resources and Capital Structure

Cash flow

As at 31 December 2015, the Group had a net cash inflow of RMB17,871,000.

The net amount of the cash outflow arising from investing activities for the payment of purchasing properties, plant and equipment in amount of RMB97,886,000, and the deposits paid for acquisition of property, plant and equipment in amount of RMB9,172,000 .

Inventories

The inventories decreased 5.12% to approximately RMB139,843,000 as at 31 December 2015, compared to approximately RMB147,385,000 as at 31 December 2014. During the Year, the inventory turnover day was approximately 36 days (2014: 35 days) which was at a normal level.

Trade receivables

As at 31 December 2015, the trade receivables amounted to RMB486,758,000 (as at 31 December 2014: RMB508,385,000). We granted to our paper-based packaging products customers credit period of 30 to 120 days and to our corrugated medium paper customers credit period of 30 to 75 days. The turnover day for trade receivables was approximately to 100 days (2014: 98 days).

Bills receivables

As at 31 December 2015, the bills receivables amounted to RMB424,651,000 (31 December 2014: RMB488,842,000).

Trade payables

As at 31 December 2015, the trade payables amounted to RMB445,116,000 (as at 31 December 2014: RMB521,501,000). The Group managed to obtain a credit period of 30 to 120 days from the majority of its suppliers. The turnover day for trade payables was shortened to 120 days (2014: 126 days).

Borrowings

As at 31 December 2015, the Group's bank borrowings and other borrowings balance amounted to RMB884,953,000 (as at 31 December 2014: RMB932,657,000).

Gearing ratio

As at 31 December 2015, the gross gearing ratio was approximately 35.41% (as at 31 December 2014: 36.34%), which was calculated on the basis of the total amount of bank borrowings and other borrowings as a percentage of the total assets. The net gearing ratio was 115.45%, which was calculated on the basis of the amount of bank borrowings and other borrowings less pledged bank deposits and cash and bank balances as a percentage of the shareholders' equity (as at 31 December 2014: 136.08%).

Pledge of assets

As at 31 December 2015, the Group pledged certain assets with carrying value of RMB861,308,000 as collateral for the Group's borrowing (as at 31 December 2014: RMB901,697,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital commitments

As at 31 December 2015, the Group's capital commitments (including the engaged and authorized capital commitments) were RMB32,267,000 (as at 31 December 2014: RMB70,199,000). All the capital commitments were related to purchasing new properties, factories and facilities and the leasing of land.

Contingent liabilities

The Group had no significant contingent liabilities or litigation or arbitration of material importance as at 31 December 2015.

Foreign currency exposure

The Group collects most of its revenue and incurs most of the expenditures in RMB. Although the Group undertakes certain transactions denominated in foreign currencies, mainly the currencies of United States, Hong Kong and United Kingdom. The Group has reduced the transactions using in such currencies during the Year due to the fluctuations in currencies from RMB to United States Dollars and other foreign currencies. The Group acquired Lian He and Lian Xing paper manufacturing factories in 2014. Before the acquisition, Lian He and Lian Xing borrowed a ten years borrowings with amount of JPY3,500,000,000 from Rengo Company Limited*（レンゴー株式會社）, one of shareholder of Lian He and Lian Xing. As at 31 December 2015, the outstanding balance of that borrowings amounted to JPY3,000,100,000. In order to minimize the currency risk in JPY, the Group had made RMB borrowings in March 2016 for the purposes of repayment the principal amounted to JPY938,000,000 for the next six years. The Group also takes steps to reduce the loans using foreign currencies gradually to minimize the foreign currency risk. The Group currently does not have a foreign currency hedging policy. The Directors, however, will monitor foreign exchange rate closely and consider entering into foreign currency hedging arrangement should the need arise.

Human Resource Management

The Group had 3,862 employees as at 31 December 2015 (as at 31 December 2014: 4,511 employees). The staff costs amounted to RMB243,310,000 for the year ended 31 December 2015 (for the year ended 31 December 2014: RMB229,170,000).

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

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

* For identification purpose only

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Hu Zheng (胡 正), aged 53, he is the Chairman, executive Director and one of the founders. Furthermore, Mr. Hu Zheng is the Chairman of the nomination committee and member of the remuneration committee. Mr. Hu Zheng is responsible for overseeing the overall corporate management, operation and development planning and had over 20 years of experience in the paper-making and packaging industries. Prior to founding our Group, Mr. Hu Zheng worked as a technician and as assistant engineer at a then state-owned paper factory since 1983 then he was a director of a PRC paper and packaging products manufacturing factory, responsible for the management of daily operation and strategic planning from 1990 to 2003. In October 1981, Mr. Hu Zheng graduated from Guangdong Foshan Vocational College (廣東佛山職業技術學院) (formerly known as Guangdong Foshan Region Agricultural Mechanical College (廣東省佛山地區農業機械化學校)) and completed a Master of Business Administration at the Macau University of Science and Technology (澳門科技大學) in August 2001. Mr. Hu Zheng is the brother of Mr. Hu Hancheng (an executive Director and a substantial shareholder of the Company (the "**Shareholder**") through his interests in Golden Century Assets Limited) and Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Hanxiang (a non-executive Director).

Mr. Hu Hancheng (胡漢程), aged 56, has been appointed an executive Director since 4 March 2011. He is also the Chief Executive Officer and the Vice-Chairman of the Company, responsible for the comprehensive operation management of the Group. He joined the Group in 2003 and has been the legal representative of Zheng Ye Packaging (Zhongshan) Company Limited, an indirectly wholly-owned subsidiary of the Company, since December 2007. Mr. Hu Hancheng is also the president of the packaging business division of the Group in charge of the management and operation of the packaging business division. Prior to joining the Group, Mr. Hu Hancheng was the general manager of a PRC packaging products manufacturing factory from 1997 to 2003 responsible for the overall operational management of the business. Mr. Hu Hancheng is currently the vice president of Zhongshan Association of Packaging Industry. In January 1995, Mr. Hu Hancheng completed an economic management program at the Guangdong Polytechnic College (廣東省工程職業技術學院) formerly known as Guangdong Province Adult Technology University (廣東省成人科技大學). Mr. Hu Hancheng is brother of Mr. Hanchao and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hanchao (胡漢朝), aged 58, joined our Group in 2003 and he was appointed as a Director in September 2010 then was designated as an executive Director in March 2011 and appointed as Vice Chairman in November 2012. Mr. Hu Hanchao is responsible for the daily operations management of the Group and supervised the daily comprehensive operation management in paper division. He has been involved in corporate management for more than 27 years. Prior to joining the Group, Mr. Hu Hanchao was the deputy general manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the overall operational management of the business and before that he was the assistant manager of Xinhua Bookshop from 1985 to 1994. In August 1985, Mr. Hu Hanchao graduated from Zhongshan Municipal Communist Party Cadre School (中山市幹部學校). Mr. Hu Hanchao is the brother of Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited), Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited) and Mr. Hu Hanxiang (a non-executive Director).

Non-Executive Directors

Mr. Hu Hanxiang (胡漢祥), aged 61, joined our group in 2004 as a supervisor of Zhongshan Yong Fa Paper and he was appointed as a non-executive Director in March 2011. Prior to joining the Group, Mr. Hu Hanxiang had worked for the Guangdong Provincial Light Industry Bureau for 20 years and was the department chief of the Personnel Affairs and Education Department of Guangdong Provincial Light Textile Industry Office from 1995 to 2000, responsible for human resources management. In July 1986, Mr. Hu Hanxiang graduated from Guangdong Province Economic Management Bureau College (廣東省經濟管理幹部學院). Mr. Hu Hanxiang is the brother of Mr. Hu Hancheng (an executive Director and a substantial Shareholder through his interests in Golden Century Assets Limited), Mr. Hu Hanchao (an executive Director and a substantial Shareholder through his interests in Leading Innovation Worldwide Corporation) and Mr. Hu Zheng (an executive Director and a controlling Shareholder through his interests in Gorgeous Rich Development Limited).

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Prof. Zhu Hongwei (朱宏偉), aged 52, joined the Company on 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. He was an independent director of Guangdong Hydropower Engineering Group Company Limited during the period from September 2003 to December 2009. Prof. Zhu was an associate professor of Guangdong Polytechnic Normal University from February 2006 to December 2010 after which he has been appointed as a professor. He has in-depth knowledge in corporate management, having received tertiary education and undertaken faculty and research positions at various universities. Prof. Zhu graduated from Sichuan University (四川大學) with a Bachelor of Science degree in July 1983 and holds a Master of Science degree awarded by Zhejiang University (浙江大學) formerly known as Hangzhou University (杭州大學) in June 1990 and a doctorate degree in corporate management awarded by Zhongnan University of Economics and Law (中南財經政法大學) in June 2000.

Mr. Wu Youjun (吳友俊), aged 48, joined the Company in 4 March 2011 as an independent non-executive Director and is a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Wu has been currently chairman of the Guangdong Branch of Yinji Bank of Investment Guarantee Company Limited (銀基擔保有限公司) since May 2008. Mr. Wu was the vice supervisor of the Guangzhou Representative Office of Ng & Shum Solicitors & Notaries of Hong Kong and acts as its head of the China Department from 1994 to 1998. Mr. Wu studied industrial enterprises management at the Southwestern University of Finance and Economics (西南財經大學) and graduated in June 1989, and studied banking and currencies at the Jinan University (暨南大學) and graduated in January 1998, followed by a Master of Business Administration degree from the Macau University of Science and Technology in October 2001.

Mr. Chung Kwok Mo John (鍾國武), aged 47, joined the Company in 4 March 2011 as an independent non-executive Director. Furthermore, he is the Chairman of both audit committee and remuneration committee and also a member of nomination committee of the Company. Mr. Chung has over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung is an independent non-executive Director of BYD Electronic (International) Company Limited (a company listed on the Stock Exchange and stock code: 285) from June 2013. Since 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. Chung graduated from Macquarie University, Australia in 1992 with a Bachelor of Economics degree, then became a member of Hong Kong Institute of Certified Public Accountants in 1996 and that of CPA Australia in 1995.

Senior Management

Mr. Hong Guanghua (洪光華), aged 52, joined our Group in 2003. Also, Mr. Hong is the general manager of Zhongshan Yong Fa Paper Industry Company Limited ("**Zhongshan Yong Fa**") assisting with the operation and management of Zhongshan Yong Fa Paper. Before that, Mr. Hong was an executive Director of the Company from January to December 2015. Mr. Hong has 30 years of experience in the management of paper production, during which he has developed from technical and production supervision to system management of the entire papermaking process. Mr. Hong has worked in the paper manufacturing division of Zhongshan Sugar Group as the assistant engineer (助理工程師). Prior to joining our Group, Mr. Hong was the production manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2000 to 2003 responsible for the production management of the business. Mr. Hong graduated from South China University of Technology (華南理工大學) in 1984 majoring in light industry mechanics and completed the Master of Business Administration from Asia International Open University (Macau) in August 2004. He holds the title of light-industry mechanical engineer (輕工機械工程師) awarded by Zhongshan Intermediate Engineering Technician Assessment Committee (中山市工程技術人員中級職務評審委員會) in April 1992.

Mr. Fu Zhongyang (符中揚), aged 57, joined our Group in 2003. Mr. Fu is the sales director of the paper division of the Group. Before that, Mr. Fu was deputy general manager of Zhongshan Yong Fa Paper and is in charge of the sales operation. Mr. Fu has over 23 years of experience in paper sales with expertise in paper-making and economics. Mr. Fu was a technician at Zhongshan Sugar Group from 1980 to 1986 and was involved in the marketing of paper products since 1988. Prior to joining our Group, Mr. Fu was the sales manager at Zhongshan City Zhong Fa Equipment Rental Company Limited from 2001 to 2003 responsible for the sales of paper products. Mr. Fu graduated from the Department of Management Engineering of South China University of Technology (華南理工大學) in July 1988, majoring in industrial management. Mr. Fu was awarded the titles of assistant engineer (助理工程師) in paper-making processes in December 1989 and assistant economist by Zhongshan Science and Technology Committee (中山市科學技術委員會) in July 1992 and economist by the Ministry of Personnel of the PRC in October 1996.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Du Zigan（杜梓干）, aged 52, joined our Group in 2003. Mr. Du is the power director and is in charge of the operation and management in electricity. Mr. Du has 30 years of experience in the enterprise management of production. Mr. Du commenced his career as technician and electrician at thermoelectric power factory of Zhongshan City Zhongtang Group（中山市中糖集團熱電廠）and was the factory manager from 1996 to 2003. After joining our Group, Mr. Du was the executive general manager of Hubei Yong Fa Paper, the factory manager of thermoelectric power factory of Zhongshan Yong Fa Paper and the deputy general manager of the Company. Mr. Du graduated from Economic Management School of Guangdong Provincial Party School（廣東省委黨校經濟管理學院）in 2000, majoring in economic management.

Mr. Zhang Xiaoming（張曉明）, aged 53, joined our Group in 2003. Mr. Zhang is the deputy vice president of packaging business division of the Group responsible for the project and corporate management of the division. Before that, Mr. Zhang was an executive Director of the Company from January to December 2015. Mr. Zhang has been involved in the papermaking and packaging industry for over 28 years with a strong edge in administration having spent years in a management capacity. Prior to joining our Group, Mr. Zhang worked for Guangdong Zhongshan Paper Factory and was the deputy general manager of a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the overall sales management of the business. Mr. Zhang graduated in July 1985 from Guangzhou College of Light Industry（廣州輕工業學校）administered by the Ministry of Light Industry, majoring in pulp paper making.

Mr. Li Jun（李俊）, aged 53, joined our Group in 2003. Mr. Li is the sales vice president of packaging business division of the Group to responsible for the management of the marketing centre of the division. Mr. Li has been involved in paper-making process technologies and sales management of packaging products since graduation. Prior to joining our Group, Mr. Li worked for Chenzhou Hongqi Paper Factory（郴州紅旗造紙廠）from 1982 to 1993 and was responsible for the production technology and subsequently at Chenzhou Hongqi Number Two Paper Factory（郴州第二造紙廠）as assistant plant manager till 1996. Mr. Li was the head of the transportation department at a PRC packaging products manufacturing factory from 1999 to 2003 responsible for the inventory and logistics management of the business. Mr. Li graduated from Hunan Vocational College for Light Industry（湖南省輕工業專科學校）in July 1982, majoring in paper-making processes, and obtained professional qualification as an engineer（工程師）awarded by Human Resources Bureau of Hunan Province（湖南省人事廳）in July 1992.

Mr. Yin Wenxin（尹文欣）, aged 59, joined our Group in 2003. Mr. Yin is the chief engineer of the packaging business division. Before that, Mr. Yin was an executive Director of the Company from September 2012 to December 2014. Also, Mr. Yin was the executive president of our Group's packaging business division responsible for the operations management. Mr. Yin has been involved in the production management and research of recycled paper and packaging products for over 30 years. Prior to joining our Group, Mr. Yin worked for Gannan Paper Factory（贛南造紙廠）as an engineer from 1976 to 1994. Thereafter, he was the vice president at a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the operations management. Mr. Yin graduated from Jiangxi Radio & TV University（江西廣播電視大學）in August 1983 majoring in mechanic.

Mr. Huang Zhichang（黃志昌）, aged 53, joined our Group in 2004. Mr. Huang is the technician director of the Group and is in charge of project development. Mr. Huang has over 28 years of experience in the technology, production and management of papermaking industry. He was a director of Paper-making Institute of Guangdong Province（廣東省造紙學會）. Prior to joining our Group, he served as the general manager of the Group, the engineer and head of technology reform office in Guangdong Zhongshan Paper Factory from 1983 to 2004, and was responsible for production management and technology reform. Mr. Huang graduated in 1983 from Guangzhou College of Light Industry（廣州輕工業學校）administered by the Ministry of Light Industry, majoring in pulp paper making processes (undergraduate diploma).

Mr. Liu Fengming（劉風鳴）, aged 55, joined our Group in 2004. Mr. Liu is the equipment director of the Group and is in charge of project development. Before joining our Group, Mr. Liu worked on paper making mechanic design and project management. Mr. Liu worked at Tianjin Paper Making Machinery Factory（天津造紙機械廠）and was in charge of paper making mechanical design and research from 1981 to 2004. Mr. Liu has over 30 years of experience in paper making technology and enterprises management. Mr. Liu obtained the title of senior engineer awarded by Human Resources Bureau of Tianjin（天津市人事廳）in July 2000. Mr. Liu graduated from Tianjin City Vocational College（天津城市職業學院）in 1987, majoring in mechanical engineering.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chu Deliang (褚德亮), aged 50, joined our Group in 2003. Mr. Chu is the assistant audit director. Mr. Chu has over 27 years of experience in the accounting field. He was conferred the title of accountant by Human Resources Bureau of Hubei Province (湖北省人事廳) in September 1992 and the title of PRC certified public accountant in September 1999. He qualified as a certified public valuer approved jointly by the Ministry of Personnel and the Ministry of Finance of the PRC in September 2000. Mr. Chu further qualified as a registered tax agent as approved by the State Administration of Taxation of the PRC in June 2001.

Ms. Chen Wei (陳威), aged 40, joined our Group in 2007. Ms. Chen is the Chief Financial Officer of the Group and responsible for financial operations of the Group comprehensively. Ms. Chen has over 12 years of experience in financial management and tax services. She served as financial supervisor in several papermaking enterprises and group companies during the period from 1995 to 2001 and was in charge of accounting and financial management matters. Prior to joining our Group, Ms. Chen served as account manager and tax consultant in Zhongshan large-scale tax agent from 2005 to 2007. Ms. Chen completed the accounting course of Jinan University (暨南大學) in December 2005 and obtained a undergraduate diploma. Thereafter, she was awarded the Master of Business Administration degree from the University of Wales in April 2011, and obtained the title of senior accountant awarded by Human Resources Bureau of Guangdong Province (廣東省人事廳) in December 2008. In September 2009, Ms. Chen obtained professional qualification as a senior international finance manager awarded by International Financial Management Association. She is the member of International Financial Management Association.

Company Secretary

Mr. Kersen Chan (陳鉅升), aged 37, was appointed as the Company Secretary and the Authorized Representative of the Company in March 2015. Mr. Chan joined the Group as Finance Manager in December 2011. He has over 10 years of professional experience in accounting, auditing and handling the corporate secretarial duties for listed companies in Hong Kong. He has worked for various international accounting firms and listed companies in Hong Kong. Mr. Chan holds a bachelor's degree in accounting. He is a member of CPA Australia.

CORPORATE SOCIAL RESPONSIBILITY

The Board is pleased to issue the first corporate social responsibility pursuant to the Environmental, Social and Governance Reporting Guide provided in Appendix 27 to the Listing Rules, which sets out the Group's policies and practices in three categories, namely the environmental protection, working environment and community involvement for the Reporting Period.

ENVIRONMENTAL PROTECTION

The Group is committed to reducing the emission of pollutants by carrying out specific environmental management measures, both paper and packaging divisions obtained ISO14001:2004 environmental management system certification.

The Group's paper division exhaust emissions are mainly flue gas emitted by coal-fired steam boilers. All boilers are equipped with desulphurization and dust removal devices to ensure that the emissions of boiler exhaust meet the requirements of "Emission Standard of Air Pollutants for Boiler".

Also, the Group has adopted corresponding environmental protection measures to ensure compliance with relevant laws and regulations, including the controls in noise, solid waste and waste water treatment. Set forth below is a summary of the standard environmental protection measures we implement:

Noise

- Installed a low-noise equipments or machineries for production; and

- Tested the noise level of the existing equipments and machineries which fulfilled the requirement under the "Law of the PRC on Prevention and Control of Environmental Noise Pollution".

Solid waste

- Optimization of the existing waste water treatment system to ensure the emission of waste water complies with the local laws requirement and assists with the reduction of our Group's water consumption.

Waste water treatment

- Delivered a non-hazardous solid waste to landfills designated by local governments.

WORKING ENVIRONMENT

Staff

The Group values staff and the contribution that they make. It has a set of human resources management policies and procedures in place with the aim to provide good working conditions, a safe and healthy workplace where employees are engaged and can do well in whatever they do. Those policies and procedures not only ensures the Group's compliance of the relevant labor laws and regulations in places where it operates, it also sets out the Group's standard of staff recruitment, promotion guidelines, remuneration scale, work hours, rest breaks, holidays as well as termination of employment and compensation matters and for prevention of child labor or forced labor. Labor contracts or employment agreements are entered into between the Group and the employees, which clearly states relevant details in order to safeguard mutual interest and benefits. There are staff induction course and continuing educational seminars, regular staff and departmental meetings, internal publications and bulletin board, intranet communication. Specific form of communication can also be made subject to the communication content and characteristics of participants. The Group formulates human resources plan in accordance with its development plan and strategic goals and review regularly. Apart from making external recruitment plan for continuous injection of fresh blood to the Group, the Group forms internal staff training and talent reserve plan, establishes all-level position selection and evaluation system to optimize human resources allocation and internal promotion and nurtures prospective employees to be future leaders in their respective areas.

CORPORATE SOCIAL RESPONSIBILITY

The Group mainly recruited through advertisement, recruitment fairs and on-campus recruitment. During the year ended 31 December 2015, the Group had 3,862 employees, of which 3,404, or 88.14%, were based in Guangdong Province and Hong Kong, and 458, or 11.86%, were based outside Guangdong Province. The following table sets forth the number and breakdown of our full-time employees by function as at year ended 31 December 2015:

	Age 30 or below		Age 31 to 45		Age 46 or above		
	Male	**Female**	**Male**	**Female**	**Male**	**Female**	**Total**
Production	525	144	871	434	756	233	2,963
Administrative	102	87	230	125	261	94	899
Total	627	231	1,101	559	1,017	327	3,862

Workplace Environment

The Group is committed to providing a safe working environment for all of the staff. The Group are subject to the relevant PRC and Hong Kong laws and regulations regarding production safety, including the principle law governing the administration of production safety in the PRC, namely the "PRC Production Safety Law" which took effect on 1 November 2002. In order to ensure occupational safety and health of our employees in the process of production, the Group has adopted various measures such as the provision of periodic self-rescue training courses and hazard drills to employees, installation of first-aid equipment in the production sites and provision of protective equipment.

Training and development

The Group offers various training programs, and earmarks funds for staff training each year to keep the update information in paper and packaging industries. In addition, the Group has established a comprehensive training system and mechanism to provide on job teaching and training for its employees with a view to enhancing skills and management capabilities of the staff to offer smooth promotion channels. Based on analysis of the development needs of the Group, the management through various methods such as internal aptitude tests, on-job training and examinations and seniors' recommendations, always keeps ongoing selection of outstanding candidates for priority training.

Standards

All of the employees of the Group were treated equally. Their employment, remuneration and promotion consideration will be not affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marital status.

The majority of the employees of the Group were located in the PRC. The Group strictly complies with the requirements of "The Labour Law" and "The Labour Contract Law" of the PRC and "Hong Kong Employment Ordinance" without violating the relevant rules and regulations including the workers' wages, overtime payments and related benefits are made with reference to the local minimum wage, and holidays and statutory paid leaves are in compliant with the requirements in the PRC and Hong Kong.

Anti-corruption

The Group is committed to prevent and monitor any malpractice or unethical actions. The Group has established stringent policies for anti-corruption and anti-fraud, which were communicated to the employees and providing them a whistle blowing channel for reporting any suspected misappropriate actions to the Board.

COMMUNITY INVOLVEMENT

The Group committed to fulfill corporate social responsibility and continued to dedicate the internal resources to charitable activities. During the year ended 31 December 2015, the Group donated RMB1,000,000 to Songzi City government for a fund of educational facility.

CORPORATE GOVERNANCE REPORT

The directors of the Company (the "**Directors**") are pleased to present the corporate governance report in the annual report of the Company for the year ended 31 December 2015 (the "**Year**").

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

The Company has complied with the code provisions set out in the Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") throughout the year ended 31 December 2015.

Board of Directors

The board of directors (the "**Board**") of the Company has a balance of skill and experience and a balanced composition of Executive and Non-executive Directors, the overall management of the Company's business was vested in the Board. The Board has delegated the day-to-day management of the Company's business to the executive management team, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. As at 31 December 2015, the Board comprised seven members, consisting of three Executive Directors namely, Mr. Hu Zheng (Chairman), Mr. Hu Hancheng (Vice-Chairman and Chief Executive Officer) and Mr. Hu Hanchao (Vice-Chairman and Chief Operating Officer), one Non-Executive Director namely, Mr. Hu Hanxiang and three Independent Non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei. Mr. Hong Guanghua and Mr. Zhang Xiaoming resigned as Executive Directors of the Company on 31 December 2015. The Directors are well-versed in respective areas such as knowledge and technical know-how of paper-making and packaging industries, accounting and finance and business management. The Board as a whole has achieved an appropriate balance of skills and experience. The profiles of all directors and the relationship among members of the Board (including financial, business, family or other material or relevant relationships, if any) are set out on pages 14 to 15.

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

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

The dates of the 2015 regular Board meetings were determined according to the requirement of the Bye-laws and any amendments to this schedule were notified to all the Directors at least 14 days before the meeting. Suitable arrangements were in place to allow the Directors to include items in the agenda for regular Board meetings.

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

CORPORATE GOVERNANCE REPORT

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

	Meetings Attended/Meetings Held				
Name of directors	**Board Meeting**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**AGM**
Executive Directors					
Mr. Hu Zheng	4/4	N/A	1/1	1/1	1/1
Mr. Hu Hancheng	4/4	N/A	N/A	N/A	1/1
Mr. Hu Hanchao	4/4	N/A	N/A	N/A	1/1
Mr. Hong Guanghua (resigned on 31 December 2015)	4/4	N/A	N/A	N/A	1/1
Mr. Zhang Xiaoming (resigned on 31 December 2015)	4/4	N/A	N/A	N/A	1/1
Non-Executive Director					
Mr. Hu Hanxiang	4/4	N/A	N/A	N/A	0/1
Independent Non-Executive Director					
Mr. Chung Kwok Mo John	3/4	2/2	0/1	0/1	1/1
Mr. Wu Youjun	3/4	1/2	1/1	1/1	1/1
Prof. Zhu Hongwei	4/4	2/2	1/1	1/1	1/1

Mr. Hu Hanxiang did not attend the 2015 AGM as he had other prior business engagement.

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

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

Board Diversity Policy

The Company has adopted a board diversity policy (the "**Policy**") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, industry experience, skills, knowledge and length of service.

The Board recognised the benefits of diversity in the Board in enhancing the Board effectiveness and corporate governance. The Nomination Committee will give consideration to a number of factors as set out in the Policy when identifying suitably qualified candidates to become members of the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service. The Board is considered well balanced and of a diverse mix appropriate for the business of the Company. The Company will also take into account its own business model and specific needs from time to time to determine the optimum composition of the Board. The Company will review the Policy on a regular basis to ensure its continued effectiveness.

CORPORATE GOVERNANCE REPORT

Board Committees

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, throughout the year ended 31 December 2015. During the year, these committees adhered to their principles, procedures and arrangements set out above. The respective committee secretary or designated person took full minutes of the meetings of these committees and the work of these committees was reported to the Board regularly.

Chairman and Chief Executive Officer ("CEO")

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

During the year, Mr. Hu Zheng was the Chairman and Mr. Hu Hancheng was the CEO of the Company for purpose of maintaining and a more balanced basis for judgments and decisions. The Board viewed that, under the leadership of Mr. Hu Zheng as the Chairman of the Company, taking up the role of providing leadership for the Board and ensures that the Board works effectively and discharges its responsibility properly. It can also ensure that the Board acts in the best interests of the Company and the Group.

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

Responsibilities of and Delegation by the Board

The Board is responsible for the overall leadership of the Group, overseas the Group's strategic decisions and monitors business and performance.

The management, consisting of executive Directors along with the senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day operations of the Group. Executive Directors and the senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Non-Executive Directors

Each of Independent Non-executive Directors and Non-executive Director was appointed with specific terms. Each of them had signed a letter of appointment with the Company for a term of 1 year commencing from 1 January 2015 and is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the bye-laws of the Company (the "**Bye-laws**").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries of all Directors, the Company confirms that all Directors have complied with the required standards set out in the Model Code throughout the year ended 31 December 2015.

CORPORATE GOVERNANCE REPORT

Directors and Officers Liability Insurance

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

Corporate Governance Functions

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

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

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

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

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

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

The work performed by the Board on corporate governance functions during the year ended 31 December 2015 included developing and reviewing the Company's policies on corporate governance and making relevant recommendations.

Continuous Professional Development

Under A.6.1 and A.6.5 of the Code in relation to Directors' training. Except Mr. Chung Kwok Mo John, all Directors namely Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao, Mr. Hong Guanghua, Mr. Zhang Xiaoming, Mr. Hu Hanxiang, Mr. Wu Youjun and Prof. Zhu Hongwei have completed continuous professional development training by attending the in-house training of "Risks Management and Internal Control" organized by a consultancy training company engaged by the Company. The attended Directors have provided a training record to the Company. Mr. Chung Kwok Mo John attended the continuous professional development trainings held by professional bodies and consultancy training company. Mr. Chung had provided the relevant training records to the Company.

Remuneration Committee

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

The Remuneration Committee presently comprises one Executive Director, namely Mr. Hu Zheng and three Independent Non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei. The Committee is chaired by Mr. Chung Kwok Mo John. The Remuneration Committee held one meeting during the year and details of attendance are shown in the table on page 21 of this annual report. The work performed by the Remuneration Committee during the year ended 31 December 2015 included the following matters:

- make recommendations to the Board of the remuneration of Executive and Non-executive Directors for the years ended 31 December 2016. The Remuneration Committee has considered factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

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

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

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

CORPORATE GOVERNANCE REPORT

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

Nomination Committee

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

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

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

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

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

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

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

Three Executive Directors, namely, Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao had entered into a service contract with the Company for a period of three years commencing from 1 January 2015, unless terminated in accordance with the terms of the service contract. Two Executive Directors, namely Mr. Hong Guanghua and Mr. Zhang Xiaoming had entered into a service contract with the Company for a period of 1 year commencing from 1 January 2015. The Non-executive Director and each of the Independent Non-executive Directors had signed a letter of appointment with the Company for a term of one year commencing from 1 January 2015 and is renewable upon its expiration and may be terminated in accordance with the terms of the letter of appointment. During the financial year ended 31 December 2015, there was one meeting held by the Nomination Committee. Details of attendance are shown in the table on page 21.

The work of the Nomination Committee during the year ended 31 December 2015 included the following matters:

- to make recommendation to the Board on renew services contracts of non-executive Director and independent non-executive Directors;

- to make recommendation to the Board for the acceptance of resignation from Mr. Hong Guanghua and Mr. Zhang Xiaoming as executive Directors of the Company with effective from 31 December 2015; and

- to assess the independence of the Independent Non-executive Directors.

CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

For the year ended 31 December 2015, the fees charged by the Company's auditors in respect of audit amounted to approximately RMB2,068,000.

Audit Committee

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

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

The Audit Committee held two meetings during the year and details of attendance are shown in the table on page 21. The work of the Audit Committee during the year ended 31 December 2015 included of the following matters:

- provide recommendation to the Board on the reappointment of external auditors, and approve the audit fee and terms of engagement of the external auditors;

- review and monitor external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discuss with external auditors before audit commences, the nature and scope of the audit and reporting obligations;

- monitor integrity of financial statements, interim report and annual report, and review significant financial reporting judgments contained in them;

- review financial controls, internal controls and risk management systems;

- discuss with management regarding the system of internal controls and ensure that management has discharged its duty to have an effective internal control system including adequacy of resources, qualifications and experience of staff of accounting and financial reporting function, and their training programmes and budget;

- ensure co-ordination between internal and external auditors, and to ensure that internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of internal audit function;

- review financial and accounting policies and practices; and

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

Directors' and Auditors' Responsibilities for Accounts

The Directors acknowledge the responsibilities for preparing the accounts of the Company. The external auditors' statement about their reporting responsibilities is set out on pages 37 and 38.

CORPORATE GOVERNANCE REPORT

Going Concern

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

Internal Controls

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

Company Secretary

Mr. Kersen Chan has been engaged by the Company as the company secretary since March 2015, his biographical details are set out in the section headed "Profiles of Directors and Senior Management" in this annual report. Mr. Chan has complied with the requirement under Rule 3.29 of the Listing Rules during the year.

Communication with Shareholders

The Company endeavors to maintain an on-going dialogue with its shareholders, and in particular through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Chairman of the Board will make himself available at the forthcoming annual general meeting to be held on Friday, 17 June 2016 to answer any questions from shareholders.

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

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

Shareholders' Rights

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

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

Right to Put Forward Enquiries to the Board

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

Constitutional Documents

There are no significant changes in the Company's constitutional documents during the year.

DIRECTORS' REPORT

The Directors are pleased to present to the shareholders their report together with audited consolidated financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2015.

Principal Activities

The Company is an investment holding company. The principal activities of the Group are manufacturing and sale of paper, paperboard and paper-based packaging products. The principal activities of the subsidiaries are set out in note 40 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2015 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 37 to 99 of this annual report.

The Directors do not recommend the payment of a final dividend and the retention of the of the profit for the year approximately RMB338,684,000.

Property, Plant and Equipment

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

Share Capital

Details of movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2015, calculated in accordance with the provision of the Bermuda Companies Act 1981, amounted to RMB47,719,000.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the latest five financial years is set out on page 100 of this annual report.

Reserves

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

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities shares during the year ended 31 December 2015.

Pre-Emptive Rights

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

DIRECTORS' REPORT

Directors

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

Executive Directors

Mr. HU Zheng *(Chairman)*
Mr. HU Hancheng *(Vice-Chairman and Chief Executive Officer)*
Mr. HU Hanchao *(Vice-Chairman and Chief Operating Officer)*
Mr. HONG Guanghua (resigned on 31 December 2015)
Mr. ZHANG Xiaoming (resigned on 31 December 2015)

Non-Executive Director

Mr. HU Hanxiang

Independent Non-Executive Directors

Mr. CHUNG Kwok Mo John
Mr. WU Youjin
Prof. ZHU Hongwei

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

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

Directors and Senior Management

The biographical details of Directors and Senior Management are set and on pages 14 to 17 of this annual report.

Directors' Service Contracts

The executive Directors namely, Mr. Hu Zheng, Mr. Hu Hancheng and Mr. Hu Hanchao have renewed their service contracts with the Company for a term of three years commencing from 1 January 2015. Both are subject to termination by either party giving not less than three months' written notice to the other.

The non-executive Director, Mr. Hu Hanxiang and each of the independent non-executive Directors namely, Mr. Chung Kwok Mo John, Mr. Wu Youjun and Prof. Zhu Hongwei have been appointed for a term of one year commencing from 1 January 2016 and are subject to termination by either party giving not less than three months' written notice to the other.

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

DIRECTORS' REPORT

Emolument Policy

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

The remuneration of the members of the senior management by band for the year ended 31 December 2015 was set out below:

Remuneration band (RMB)	Number of individuals
0–500,000	31
500,001–1,000,000	5
1,000,001 or above	3

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

Director's Interest in Contracts of Significance

Save as disclosed in the section headed "Continuing Connected Transactions" in this report and note 39 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party during the year under review.

Directors' Rights to Acquire Shares or Debentures

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

DIRECTORS' REPORT

Directors' and Chief Executives' Interests in the Securities of the Company or its Associated Corporations

As at 31 December 2015, the interests and short positions of the directors and chief executive(s) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance the ("**SFO**")) as recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise as required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

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

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares the relevant directors or chief executive was interested in expressed as a percentage of the number of issued shares as at 31 December 2015.

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

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

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

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

DIRECTORS' REPORT

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

Save as disclosed above and in the paragraph headed "Share Option Scheme" below, no other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept by the Company under section 352 of the SFO.

Substantial Shareholders' Interests in the Securities of the Company

As at 31 December 2015, so far as are known to any Director or chief executive of the Company, the persons (other than the Directors and the chief executive(s) of the Company) were recorded in the register kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as leasing directly or indirectly interested or deemed to the interested in 5% or more of the issued share capital of the Company.

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

Notes:

1. All the interests stated above represent long positions. The percentage shown was the number of shares in the Company that the relevant shareholder(s) was/were interested in expressed as a percentage of the number of issued shares in the Company as at 31 December 2015

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

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

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

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

DIRECTORS' REPORT

Share Option Scheme

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

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

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

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

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

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2015 is as follows:

				Number of share options				
Details of grantees	**Date of grant**	**Exercise price per share (HK$)**	**Exercisable Period**	**As at 1 January 2015**	**Granted during the year**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**Outstanding as at 31 December 2015**
Hu Zheng (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	170,000	–	–	170,000	–
Hu Hancheng (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	170,000	–	–	170,000	–
Hu Hanchao (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	170,000	–	–	170,000	–
Hu Hanxiang (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	140,000	–	–	140,000	–
Chung Kwok Mo John (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	100,000	–	–	100,000	–
Wu Youjun (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	50,000	–	–	50,000	–
Zhu Hongwei (Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	50,000	–	–	50,000	–

DIRECTORS' REPORT

Details of grantees	Date of grant	Exercise price per share (HK$)	Exercisable Period	Number of share options: As at 1 January 2015	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2015
Hong Guanghua (Former Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	550,000	–	–	550,000	–
Zhang Xiaoming (Former Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	830,000	–	–	830,000	–
Yin Wenxin (Former Director)	20 January 2012	0.82	1 July 2014 to 30 June 2015	840,000	–	–	840,000	–
Employees	20 January 2012	0.82	1 July 2014 to 30 June 2015	3,160,000	–	–	3,160,000	–

Details of the valuation of the options granted under the Share Option Scheme during the year are set out in note 37 to the consolidated financial statements

Connected Transactions

Certain related party transactions as disclosed in note 39 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which relevant disclosure had been made by the Company in the announcement dated 27 September 2013.

One-off Connected Transactions

Zhongshan Lianfa Transportation Company Limited ("**Lianfa**"), a wholly-owned subsidiary of the Company and Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**"), a limited company established in the PRC and owned as to 20% and 80% by Mr. Hu Hanchao and Zhongshan City Zheng Ye Leasing Company Limited respectively. Lianfa acquired the trailers from Zhong Fa Equipment in consideration of RMB113,000 for the purpose of goods transportation.

In January 2015, Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited ("**Lian He**"), a non-wholly owned subsidiary of the Company and Shanghai Rengo Packaging Decoration Company Limited*（上海聯合包裝裝潢有限公司）("**Shanghai Rengo**"), a limited company established in the PRC and owned as to 100% by Rengo Company Limited*（レンゴー株式會社）("**Japan Rengo**"). Shanghai Rengo provided a financial guarantees to Lian He to secure the banking facilities with an aggregate amount of RMB10,000,000. The amount had been fully settled on January 2016.

In January 2016, Lian He, Shanghai Rengo and Wuxi Rengo Packaging Company Limited*（無錫聯合包裝有限公司）("**Wuxi Rengo**"), a limited company established in the PRC and owned as to 91% and 9% by Shanghai Rengo and Japan Rengo respectively. Shanghai Rengo and Wuxi Rengo provided a financial guarantees to Lian He to secure the banking facilities with an aggregate amount of RMB50,000,000.

* *For identification purposes only*

DIRECTORS' REPORT

Continuing Connected Transactions

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

Exempt Continuing Connected Transactions

Leasing of Cars and Trucks

Zhongshan Yong Fa and Zhongshan City Zhong Fa Equipment Rental Company Limited ("**Zhong Fa Equipment**"), a connected person of the Company by virtue of Rule 14A.11 of the Listing Rules, entered into the cars and trucks rental agreement dated 31 December 2014 made between Zhong Fa Equipment as lessor and Zhongshan Yong Fa is lessee for a term of one year commencing from 1 January 2015 to 31 December 2015 at the monthly rates of RMB1,100 per car and RMB1,600 per truck payable monthly. The cars and trucks rental agreement can be terminated by mutual agreement between the parties by Yong Fa giving not less than 30 days' written notice to Zhong Fa Equipment to that effect.

During the year, the rental fee of cars and trucks from Zhong Fa Equipment amounted to RMB139,000 (2014: RMB206,400).

Non-Exempt Continuing Connected Transactions

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

Leasing of Premises

Zheng Ye Packaging (Zhongshan) Company Limited ("**Zheng Ye Packaging (Zhongshan)**"), a wholly-owned subsidiary of the Company and Zheng Ye Leasing entered into three tenancy agreements made between Zheng Ye Leasing as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting of the premises as summarized below:

- Date and subject matter of each tenancy agreement:

  — Tenancy agreement dated 18 December 2014 (the "**First Tenancy Agreement**") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..

  — Tenancy agreement dated 18 December 2014 (the "**Second Tenancy Agreement**") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,844 sq.m..

  — Tenancy agreement dated 18 December 2014 (the "**Third Tenancy Agreement**") in relation to the letting of premises located at Nos. 119 and 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our workshop and canteen respective site with total gross floor areas of approximately 2,622 sq.m. and 304 sq.m. respectively.

- Period:

  — The First Tenancy Agreement: for a term of two years from 1 January 2015 to 31 December 2016 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

  — The Second Tenancy Agreement: for a term of two years from 1 January 2015 to 31 December 2016 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

  — The Third Tenancy Agreement: for a term of two years from 1 January 2015 to 31 December 2016 with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of one year by serving not less than 30 days' written notice on Zheng Ye Leasing at the then market rent.

DIRECTORS' REPORT

- Monthly rental payable:
  - The First Tenancy Agreement is in amount of RMB293,621.
  - The Second Tenancy Agreement is in amount of RMB63,143.
  - The Third Tenancy Agreement is in amount of RMB12,582.
  - The monthly rent payable for the renewal term under each of the Tenancy Agreements will be the then market rent provided that any upward adjustment to the monthly rent will be subject to a cap of not more than 10% of the monthly rent payable immediately prior to the expiration of the original term.
- Rental deposit paid:
  - The First Tenancy Agreement in amount of RMB300,000.
  - The Second Tenancy Agreement in amount of RMB100,000.
  - The Third Tenancy Agreement in amount of RMB50,000.

During the year, the rental fee of the premises from Zheng Ye Leasing amounted to RMB4,432,152 (2014: RMB4,432,152).

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

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

(ii) on normal commercial terms; and

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

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

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

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

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

DIRECTORS' REPORT

Corporate Governance

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

Mode Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All the Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2015.

Major Customers and Suppliers

In the year under review, 31.03% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 19.07% of the Group's revenue for the year. 29.56% of the Group's total purchases was attributable to the Group's five largest supplier and purchases from the Group's largest supplier accounted for 11.63% of the Group is total purchases

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

Directors' Interests in Competing Business

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

Sufficiency of Public Float

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

Auditor

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

By order of the Board

Hu Zheng
Chairman

Hong Kong, 29 March 2016

INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated financial statements of Zhengye International Holdings Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 39 to 99, which comprise the consolidated statement of financial position as at 31 December 2015, 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

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 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTES	**2015** **RMB'000**	2014 RMB'000
Revenue	5	**1,807,765**	1,714,190
Cost of sales		**(1,464,027)**	(1,422,291)
Gross profit		**343,738**	291,899
Other income	7	**24,549**	28,754
Other gains and losses	8	**(14,753)**	30,346
Distribution and selling expenses		**(64,823)**	(67,927)
Administrative expenses		**(120,062)**	(112,376)
Finance costs	9	**(62,302)**	(66,316)
Other expenses		**(476)**	(1,318)
Research and development costs		**(49,153)**	(43,296)
Profit before tax	11	**56,718**	59,766
Income tax expense	10	**(14,025)**	(11,277)
Profit and total comprehensive income for the year		**42,693**	48,489
Total comprehensive income for the year attributable to:			
Owners of the Company		**41,136**	39,480
Non-controlling interests		**1,557**	9,009
		42,693	48,489
Earnings per share			
Basic (RMB)	15	**0.08**	0.08
Diluted (RMB)	15	**0.08**	0.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current Assets			
Property, plant and equipment	16	**981,150**	947,301
Prepaid lease payments	17	**206,349**	211,879
Other intangible assets	18	**2,331**	4,137
Deferred tax assets	28	**868**	1,191
Deposits for acquisition of property, plant and equipment		**9,172**	16,422
		1,199,870	1,180,930
Current Assets			
Inventories	19	**139,843**	147,385
Trade and other receivables	20	**938,470**	1,038,878
Prepaid lease payments	17	**5,530**	5,530
Pledged bank deposits	22	**145,855**	145,932
Short-term investment	23	**10,000**	5,000
Bank balances and cash		**59,442**	41,571
Tax recoverable		**–**	1,282
		1,299,140	1,385,578
Current Liabilities			
Trade and other payables	24	**698,447**	731,291
Tax liabilities		**7,372**	8,207
Bank borrowings	27	**779,723**	829,086
Other borrowings	27	**43,982**	30,288
Obligations under a finance lease	25	**330**	311
Amounts due to directors	26	**2,620**	2,237
Loans from a non-controlling equity owner of a subsidiary	26	**25,138**	43,470
		1,557,612	1,644,890
Net Current Liabilities		**(258,472)**	(259,312)
Total Assets Less Current Liabilities		**941,398**	921,618

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Capital and Reserves			
Share capital	29	**41,655**	41,655
Share premium and reserves		**547,072**	505,936
Equity attributable to owners of the Company		**588,727**	547,591
Non-controlling interests		**110,413**	108,856
Total Equity		**699,140**	656,447
Non-current Liabilities			
Deferred tax liabilities	28	**2,074**	2,240
Deferred income	30	**34,276**	27,037
Bank borrowings	27	**38,500**	52,500
Other borrowings	27	**22,748**	20,783
Obligations under a finance lease	25	**8,168**	8,498
Loans from a non-controlling equity owner of a subsidiary	26	**136,492**	154,113
		242,258	265,171
		941,398	921,618

The consolidated financial statements on pages 39 to 99 were approved and authorised for issue by the board of directors on 29 March 2016 and are signed on its behalf by:

HU ZHENG
DIRECTOR

HU HANCHENG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attribute to owners of the Company								
	Share capital RMB'000	**Share premium** RMB'000	**Statutory reserve** RMB'000	**Share options reserve** RMB'000 (note 1)	**Other reserve** RMB'000	**Retained profits** RMB'000 (note 2)	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2014	41,655	92,968	90,740	4,473	(23,389)	311,753	518,200	–	518,200
Profit and total comprehensive income for the year	–	–	–	–	–	39,480	39,480	9,009	48,489
Acquisition of subsidiaries	–	–	–	–	–	–	–	99,847	99,847
Transfer to statutory reserve	–	–	5,569	–	–	(5,569)	–	–	–
Recognition of equity-settled share-based payments	–	–	–	361	–	–	361	–	361
Transfer of share option reserve	–	–	–	(3,470)	–	3,470	–	–	–
Dividends (note 14)	–	–	–	–	–	(10,450)	(10,450)	–	(10,450)
At 31 December 2014	41,655	92,968	96,309	1,364	(23,389)	338,684	547,591	108,856	656,447
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**41,136**	**41,136**	**1,557**	**42,693**
Transfer to statutory reserve	**–**	**–**	**9,324**	**–**	**–**	**(9,324)**	**–**	**–**	**–**
Transfer of share option reserve	**–**	**–**	**–**	**(1,364)**	**–**	**1,364**	**–**	**–**	**–**
At 31 December 2015	**41,655**	**92,968**	**105,633**	**–**	**(23,389)**	**371,860**	**588,727**	**110,413**	**699,140**

Notes:

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

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

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

(2) The amount mainly relates to reserve arising from group reorganisation carried out by the Group in preparation for the public listing of the Company's shares on the Stock Exchange of Hong Kong Limited in 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**56,718**	59,766
Adjustments for:			
Finance costs		**62,302**	66,316
Interest income		**(3,836)**	(4,800)
Income from short-term investments		**(744)**	(52)
Depreciation of property, plant and equipment		**73,913**	55,395
Amortisation of prepaid lease payments		**4,953**	4,315
Amortisation of other intangible assets		**1,806**	1,438
Share-based payment expense		**–**	361
Loss on disposal of property, plant and equipment		**37**	242
Exchange loss (gain) on borrowings		**12,279**	(32,137)
Amortisation of government grant relating to non-current assets		**(424)**	–
Operating cash flows before movements in working capital		**207,004**	150,844
Decrease in inventories		**7,542**	37,253
Decrease in trade and other receivables		**104,229**	38,737
(Decrease) increase in borrowings relating to discounted bills receivables		**(18,463)**	10,446
Decrease in trade and other payables		**(31,692)**	(52,440)
Increase (decrease) in amounts due to directors		**383**	(904)
Cash used in operations		**269,003**	183,936
Income tax paid		**(13,421)**	(9,510)
NET CASH FROM OPERATING ACTIVITIES		**255,582**	174,426
INVESTING ACTIVITIES			
Interest received		**3,836**	4,800
Proceeds on disposal of property, plant and equipment		**2,113**	1,680
Purchases of property, plant and equipment		**(97,886)**	(109,749)
Purchases of short-term investments		**(284,000)**	(60,000)
Proceeds from redemption of short-term investments		**279,744**	65,052
Deposits paid for acquisition of property, plant and equipment		**(9,172)**	(16,422)
Acquisition of subsidiaries	33	**–**	(109,003)
Placement of pledged bank deposits		**(328,792)**	(421,008)
Withdrawal of pledged bank deposits		**328,869**	432,690
Receipt of government grant relating to non-current assets		**7,663**	3,237
NET CASH USED IN INVESTING ACTIVITIES		**(97,625)**	(208,723)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
FINANCING ACTIVITIES			
Interest paid		**(61,763)**	(65,575)
Dividends paid		**–**	(10,450)
Repayment of bank borrowings		**(979,248)**	(951,992)
Repayments of obligations under finance leases		**(850)**	(850)
Repayments of other borrowings		**(34,162)**	(40,379)
New other borrowings raised		**49,821**	39,600
New bank borrowings raised		**930,380**	957,834
Loans obtained from a non-controlling equity owner of a subsidiary		**–**	20,000
Repayment of loan from a non-controlling equity owner of a subsidiary		**(44,264)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(140,086)**	(51,812)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**17,871**	(86,109)
CASH AND CASH EQUIVALENTS AT 1 January		**41,571**	127,680
CASH AND CASH EQUIVALENTS AT 31 December represented by bank balances and cash		**59,442**	41,571

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. General

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

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

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

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

In preparing the consolidated financial statements, the directors of the Company have given careful consideration of the Group in light of its net current liabilities of RMB258,472,000 and also commitments as at 31 December 2015. On the basis that the Group has secured credit facilities of approximately RMB287,780,000 which remains unutilised at the date of the consolidated financial statements ended 31 December 2015, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to included requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are required to be 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 subsequently accounting period. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

- In relation to the impairment of financial assets, HKRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments (Continued)

Except for the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised costs, the directors of the Company anticipate that the application of HKFRS 9 in the future may not have other material impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's finance instruments at 31 December 2015.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods of services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company are still in the progress of assessing the impact of HKFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements at the moment. It is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group completes a detailed review.

Except for the impact of HKFRS 9 and 15, the directors of the Company anticipate the application of other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Company Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclose requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

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. Specially, 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit of loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised , and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition- date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another HKFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-current assets held for sale

Non-current assets are classified as held for sales if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

Service income is recognised when services are provided.

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

Property, plant and equipment

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

Construction in progress 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 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.

Depreciation is recognised so as to write off the cost 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 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.

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

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

3. Significant Accounting Policies (Continued)

Leasing

A series of transactions that involve the legal form of a lease is linked and accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions a whole. The accounting reflects the substance of the arrangement.

An arrangement that involves a legal form of a lease is not, in substance, accounted for as a lease if:

(a) the Group retains all the risks and rewards incident to ownership of an underlying asset and enjoys substantially the same rights to its use as before the arrangement;

(b) the primary reason for the arrangement is not to convey the right to use an asset; and

(c) an option is included on terms that make its exercise almost certain.

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

The Group as lessee

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

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

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. 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 recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each 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 on 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. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs and termination benefits

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

A liability for a termination benefits is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to directors and employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 37.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

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

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

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 of items of income or expense that are taxable or deductible in other years and 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 bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 each 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.

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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 they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a 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 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 (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised or derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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 other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designed as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes dividend or interest earned on the financial assets and is included in the "other income" line item in the consolidated statements of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 32.

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 carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

Interest income is recognised by applying the effective interest rate, expect for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest and principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- the disappearance of an active market for that financial assets 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 30 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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

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

Equity instruments

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

3. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

The Group's financial liabilities (including trade and other payables, amounts due to directors and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

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

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 is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. 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 at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (Continued)

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual or expected useful lives of property, plant and equipment is less than the original estimate useful lives or revision of estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period. At 31 December 2015, the carrying amounts of property, plant and equipment are RMB981,150,000 (2014: RMB947,301,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amounts of trade receivables are RMB486,758,000 (2014: RMB508,385,000).

5. Revenue

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

6. Segment Information

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Segment Information (Continued)

(a) Segment revenue and results

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

For the year ended 31 December 2015

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	809,751	998,014	1,807,765
Inter-segment sales	–	79,476	79,476
Segment revenue	809,751	1,077,490	1,887,241
Eliminations			(79,476)
Group revenue			1,807,765
Segment profit	11,461	47,401	58,862
Eliminations			(59)
			58,803
Unallocated corporate expenses, net			(2,085)
Profit before tax			56,718

Other segment information included in the measurement of segment results:

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Depreciation	23,440	50,473	73,913
Amortisation	399	6,360	6,759

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Segment Information (Continued)

(a) Segment revenue and results (Continued)

For the year ended 31 December 2014

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
REVENUE			
External sales	974,907	739,283	1,714,190
Inter-segment sales	526	82,205	82,731
Segment revenue	975,433	821,488	1,796,921
Eliminations			(82,731)
Group revenue			1,714,190
Segment profit	29,150	36,610	65,760
Eliminations			36
			65,796
Unallocated corporate expenses, net			(6,030)
Profit before tax			59,766

Other segment information included in the measurement of segment results:

	Paper-based packaging RMB'000	Corrugated medium paper RMB'000	Total RMB'000
Depreciation	21,296	34,099	55,395
Amortisation	600	5,153	5,753

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. Segment Information (Continued)

(b) Information about products

The following is analysis of the Group's revenue from its major products:

	2015 RMB'000	2014 RMB'000
Brown box	**511,183**	638,939
Corrugated medium paper AA grade	**810,242**	550,186
Honeycomb paper	**213,987**	236,866
Corrugated medium paper C grade	**187,772**	148,979
Color box	**84,581**	99,102
Waste paper-raw material	**–**	40,118
	1,807,765	1,714,190

(c) Geographic information

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

(d) Information about major customers

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

	2015 RMB'000	2014 RMB'000
Customer A[1]	**344,812**	388,763

[1] Revenue from paper-based packaging.

(e) Segment assets and liabilities

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

7. Other Income

	2015 RMB'000	2014 RMB'000
Interest income	**3,836**	4,800
Income from short-term investment	**744**	52
Management fee income	**210**	196
Sales of scrap materials	**497**	1,896
Government grants (note)	**18,270**	21,519
Sundry income	**992**	291
Total	**24,549**	28,754

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. Other Gains and Losses

	2015 RMB'000	2014 RMB'000
Exchange (loss) gain, net	**(14,716)**	30,588
Loss on disposals of property, plant and equipment, net	**(37)**	(242)
	(14,753)	30,346

9. Finance Costs

	2015 RMB'000	2014 RMB'000
Interest on:		
Bank borrowings	**54,900**	57,583
Other borrowings	**4,557**	6,155
Loans from a non-controlling equity owner of a subsidiary	**2,306**	1,837
Finance leases	**539**	741
	62,302	66,316

10. Income Tax Expense

	2015 RMB'000	2014 RMB'000
Hong Kong profits tax:		
Current tax	**–**	142
PRC Enterprise Income Tax:		
Current tax	**10,125**	8,452
Under-provision in prior years	**3,743**	3,880
	13,868	12,474
Withholding Tax	**–**	600
Deferred tax (note 28):		
Current year	**157**	(1,797)
	14,025	11,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. Income Tax Expense (Continued)

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the both years.

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

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

Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)") and Zhongshan Yong Fa Paper Industry Company Limited ("Zhongshan Yong Fa Paper") obtained the Advanced-technology Enterprise Certificate in 2009 for three years and the applicable income tax rate was 15% in 2012 based on certain conditions. In 2012 and 2015, Zheng Ye Packaging (Zhongshan) and Zhongshan Yong Fa Paper have renewed the Certificate of High-Technology and continued to enjoy 15% of the applicable income tax rate up to year 2018.

In 2013, Zhuhai Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhuhai)") was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession of 15% up to year 2016.

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

	2015 **RMB'000**	2014 RMB'000
Profit before tax	**56,718**	59,766
PRC Enterprise Income Tax at 25%	**14,180**	14,942
Tax effect of income tax credit granted to subsidiaries for research and development costs	**(903)**	(1,471)
Tax effect of expenses not deductible for tax purpose	**5,025**	791
Effect of tax exemption on concessionary rates granted to PRC subsidiaries	**(5,951)**	(1,991)
Effect of different tax rate of subsidiaries operating of other jurisdictions	**(3,832)**	(1,563)
Tax effect of tax losses not recognised	**2,400**	2,080
Tax effect of deductible temporary difference not recognised	**2,263**	–
Utilization of deductible temporary difference previously not recognised	**(199)**	–
Utilisation of tax losses previously not recognised	**(2,701)**	(5,391)
Under-provision in respect of prior years	**3,743**	3,880
Tax charge for the year	**14,025**	11,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. Profit for the Year

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

	2015 RMB'000	2014 RMB'000
Depreciation of property, plant and equipment	**73,913**	55,395
Amortisation of other intangible assets	**1,806**	1,438
Amortisation of prepaid lease payments	**5,530**	4,892
Less: Amount capitalised in construction in progress	**(577)**	(577)
Less: Amount capitalised in inventories	**(52,291)**	(49,488)
Total depreciation and amortisation	**28,381**	11,660
Auditor's remuneration	**2,068**	2,163
Exchange loss (gain), net	**14,716**	(30,588)
Cost of inventories recognised as expense	**1,464,027**	1,422,291
Operating lease rental in respect of		
— rented factory and office premises	**19,361**	22,829
— rented vehicles	**178**	167
Staff costs		
— directors' and chief executive's emoluments	**7,723**	9,734
— salaries and other benefits costs	**217,182**	206,625
— retirement benefits scheme contribution	**18,405**	12,568
— share-based payment	**–**	243
Total staff costs	**243,310**	229,170

12. Directors' and Chief Executive's Emoluments

The emoluments paid or payable to each of the 9 (2014: 9) directors and the chief executive were as follows:

	Salary RMB'000	Bonus RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2015					
Hu Zheng	**2,000**	**–**	**–**	**52**	**2,052**
Hu Hanchao	**1,840**	**–**	**–**	**11**	**1,851**
Hu Hancheng	**1,840**	**–**	**–**	**10**	**1,850**
Hu Hanxiang	**360**	**–**	**–**	**–**	**360**
Wu Youjun	**85**	**–**	**–**	**–**	**85**
Zhu Hongwei	**85**	**–**	**–**	**–**	**85**
Chung Kwok Mo John	**122**	**–**	**–**	**–**	**122**
Zhang Xiaoming (resigned on 31 December 2015)	**699**	**–**	**–**	**11**	**710**
Hong Guanghua (resigned on 31 December 2015)	**600**	**–**	**–**	**8**	**608**
	7,631	**–**	**–**	**92**	**7,723**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. Directors' and Chief Executive's Emoluments (Continued)

	Salary RMB'000	Bonus RMB'000	Share-based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2014					
Hu Zheng	2,500	–	8	11	2,519
Hu Hanchao	2,200	–	8	11	2,219
Hu Hancheng	2,200	–	8	8	2,216
Hu Hanxiang	360	–	7	–	367
Wu Youjun	85	–	2	–	87
Zhu Hongwei	85	–	2	–	87
Chung Kwok Mo John	118	–	5	–	123
Yin Wenxin (resigned on 31 December 2014)	815	–	39	12	866
Chen Weixin (resigned on 31 December 2014)	1,200	–	39	11	1,250
	9,563	–	118	53	9,734

Note:

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

Neither the chief executive nor any of the directors waived any emoluments during the years ended 31 December 2015 and 2014.

13. Five Highest Paid Employees

The five highest paid employees of the Group during the year included four directors (2014: five directors), details of whose remuneration are set out in note 12 above. Details of the remunerations for the year of remaining one (2014: nil) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries	**724**	–
Retirement benefits scheme	**13**	–
	737	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. Dividends

	2015	2014
	RMB'000	RMB'000
Final dividend paid for the year ended 31 December 2014		
— Nil per share (2014: RMB2.09 cents per share paid for the year ended 31 December 2013)	**–**	10,450

The directors do not propose dividend in respect of the year ended 31 December 2015.

No dividend in respect of the year ended 31 December 2014 was approved by shareholders in the annual general meeting on 29 May 2015.

15. Earnings per Share

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

	2015	2014
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**41,136**	39,480
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	**500,000,000**	500,000,000

The computation of diluted earnings per share for the years ended 31 December 2015 and 2014 does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares during the years ended 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. Property, Plant and Equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Plant and machinery RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2014	134,557	3,847	19,083	18,813	546,061	57,769	780,130
Additions	110	1,348	2,795	5,603	2,625	105,020	117,501
Disposals	(1,082)	–	(575)	(1,009)	(1,413)	–	(4,079)
Transfer from construction in progress	3,923	–	–	–	123,344	(127,267)	–
Acquisitions through business combinations	47,365	–	790	2,344	211,171	20,998	282,668
At 31 December 2014	184,873	5,195	22,093	25,751	881,788	56,520	1,176,220
Additions	523	1,265	1,479	4,908	2,930	102,628	113,733
Disposals	(1,561)	(1,742)	(1,414)	(2,806)	(5,937)	–	(13,460)
Transfer from construction in progress	17,598	–	412	–	76,874	(94,884)	–
At 31 December 2015	201,433	4,718	22,570	27,853	955,655	64,264	1,276,493
DEPRECIATION							
At 1 January 2014	42,327	2,706	8,520	9,939	112,189	–	175,681
Provided for the year	6,900	979	2,793	3,622	41,101	–	55,395
Eliminated on disposals	(160)	–	(456)	(805)	(736)	–	(2,157)
At 31 December 2014	49,067	3,685	10,857	12,756	152,554	–	228,919
Provided for the year	9,258	2,117	3,870	3,923	54,745	–	73,913
Eliminated on disposals	(23)	(1,651)	(683)	(2,266)	(2,866)	–	(7,489)
At 31 December 2015	58,302	4,151	14,044	14,413	204,433	–	295,343
CARRYING VALUES							
At 31 December 2014	135,806	1,510	11,236	12,995	729,234	56,520	947,301
At 31 December 2015	143,131	567	8,526	13,440	751,222	64,264	981,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. Property, Plant and Equipment (Continued)

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

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

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

Plant and machinery with carrying amount of RMB5,763,000 (2014: RMB6,108,000) are held under finance lease.

Details of property, plant and equipment pledged are set out in note 34.

17. Prepaid Lease Payments

	2015 **RMB'000**	2014 RMB'000
Analysed for reporting purposes as:		
Current asset	**5,530**	5,530
Non-current asset	**206,349**	211,879
	211,879	217,409
Leasehold land in the PRC		
Medium term lease	**211,879**	217,409

Details of land use rights pledged are set out in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. Other Intangible Assets

	Development costs RMB'000
COST	
At 1 January 2014	6,721
Additions	1,842
At 31 December 2014 and 31 December 2015	8,563
AMORTISATION	
At 1 January 2014	2,988
Charge for the year	1,438
At 31 December 2014	4,426
Charge for the year	1,806
At 31 December 2015	6,232
CARRYING VALUES	
At 31 December 2015	2,331
At 31 December 2014	4,137

Development costs are internally generated.

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

19. Inventories

	2015 **RMB'000**	2014 RMB'000
Raw material and consumables	**98,307**	96,655
Work in progress	**16,681**	11,891
Finished goods	**24,855**	38,839
	139,843	147,385

Details of inventories pledged are set out in note 34.

20. Trade and Other Receivables

	2015 RMB'000	2014 RMB'000
Trade receivables	**488,076**	509,703
Less: allowance for doubtful debts	**(1,318)**	(1,318)
	486,758	508,385
Advances to suppliers	**2,945**	2,198
Bills receivables	**424,651**	488,842
Prepayment	**4,519**	8,435
Other receivables	**19,597**	31,018
	448,767	528,295
Total trade and other receivables	**938,470**	1,038,878

The Group allows an average credit period of 30 to 120 days from the invoice date to its trade customers except for the customers newly accepted of which payment is made when goods are delivered. For customers with good credit quality, the Group also allows them to settle the payments by bills with term of 60 to 180 days guaranteed by bank before the due date of trade receivables.

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

	2015 RMB'000	2014 RMB'000
0–60 days	**334,122**	334,924
61–90 days	**87,520**	91,270
91–180 days	**63,942**	80,485
Over 180 days	**1,174**	1,706
	486,758	508,385

The aged analysis of bills receivables based on dates of delivery of goods, at the end of the reporting period are analysed as follows:

	2015 RMB'000	2014 RMB'000
0–60 days	**42,476**	41,009
61–90 days	**98,105**	92,145
91–180 days	**183,180**	212,601
Over 180 days	**100,890**	143,087
Total	**424,651**	488,842

20. Trade and Other Receivables (Continued)

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB13,681,000 (2014: RMB15,245,000) which are past due for which the Group has not provided for impairment loss because the Group believes that the amounts are still recoverable as there are significant subsequent settlements after year end. The Group does not hold any collateral over these balances. Trade receivables in which customers have provided bills for settlement are not considered as past due.

Ageing of trade receivables which are past due but not impaired

	2015	2014
	RMB'000	RMB'000
Overdue by		
0–30 days	**7,507**	13,486
31–60 days	**4,602**	1,225
61–90 days	**801**	534
Over 90 days	**771**	–
Total	**13,681**	15,245

Movement in the allowance for doubtful debts

	2015	2014
	RMB'000	RMB'000
Balance at beginning of the year	**1,318**	1,318
Impairment losses recognised on trade receivables	**–**	–
Balance at end of the year	**1,318**	1,318

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

Details of trade receivables and bills receivables pledged as set out in note 34.

During the year ended 31 December 2015, the Group discounted bills receivable of external customers with recourse in aggregated amounts of RMB177,849,000 (2014: RMB204,588,000) to banks for short term financing of which the associated borrowings amounting to RMB174,626,000 (2014: RMB200,299,000) and the relevant cash flows relating to external customers are presented as operating cash flows in the consolidated statement of cash flows for the year then ended as the management considers the cash flows are, in substance, the receipts from trade debtors.

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21. Transfers of Financial Assets

The following were the Group's bills receivables as at 31 December 2015 that were transferred to banks or suppliers by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the related trade payables and has recognised the cash received from banks on the transfer as a secured borrowings (see note 27).

Bills receivables of external customers are carried at amortised cost. Bills receivables arising from intra-group transactions in which the relevant group entities discounted or transferred the bills to banks or suppliers, such bills receivables and related intra-group payables have been eliminated in the Group's consolidated statement of financial position.

As at 31 December 2015

	Bills receivables discounted to banks with full recourse RMB'000	**Bills receivables endorsed to suppliers with full recourse RMB '000**	**Total RMB '000**
Carrying amount of bills receivables	**292,438**	**511,429**	**803,867**
— external customers	**56,511**	**341,228**	**397,739**
— intra-group customers	**235,927**	**170,201**	**406,128**
Carrying amount of trade payables	**–**	**(511,429)**	**(511,429)**
Carrying amount of bank loans	**(292,438)**	**–**	**(292,438)**

As at 31 December 2014

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB '000	Total RMB '000
Carrying amount of bills receivables	317,720	496,040	813,760
— external customers	74,974	352,008	426,982
— intra-group customers	242,746	144,032	386,778
Carrying amount of trade payables	–	(496,040)	(496,040)
Carrying amount of bank loans	(317,720)	–	(317,720)

22. Pledged Bank Deposits and Bank Balances and Cash

Bank balances carry interest at market rates within range from 0.01% to 0.30% (2014: 0.01% to 0.35%) per annum. The pledged deposits carry interest rates which range from 0.30% to 2.75% (2014: 0.35% to 3.25%) per annum.

Pledged bank deposits represent deposit pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB145,855,000 (31 December 2014: RMB145,932,000) have been pledged to short-term bank borrowings and bills payables repayable within three to six months and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. Short-Term Investment

As at 31 December 2015, the Group's short-term investment mainly represents a financial product issued by a bank in the PRC, with principal protected and an expected variable return rate from 2.80% to 3.65% per annum (2014: from 3.00% to 5.80% per annum), depending on the exchange rate between US dollar and HK dollar. The financial product is designated as FVTPL on initial recognition. The directors of the Company consider the fair value of the financial product approximates to its carrying amount as at 31 December 2015. The short-term investment is pledged to secure the certain banking facilities granted to the Group as disclosed in note 34.

24. Trade and Other Payables

	2015	2014
	RMB'000	RMB'000
Trade payables	**445,116**	521,501
Bills payables — secured	**148,043**	89,308
Other tax payables (note)	**42,648**	52,161
Payroll and welfare payables	**27,916**	30,055
Construction payables	**865**	2,017
Advance from customers	**11,554**	13,610
Others	**22,305**	22,639
	698,447	731,291

Note: Included in other tax payables is RMB37,268,000 (2014: RMB45,590,000) provision of value-added tax.

The following is an aged analysis of trade payables presented based on the dates of receipt of goods at the end of the reporting period.

	2015	2014
	RMB'000	RMB'000
0–60 days	**207,827**	206,496
61–90 days	**95,600**	81,484
91–180 days	**115,897**	165,851
Over 180 days	**25,792**	67,670
	445,116	521,501

The aged analysis of bills payables based on the dates of receipt of goods at the end of the reporting period are analysed as follows:

	2015	2014
	RMB'000	RMB'000
0–60 days	**32,520**	32,564
61–90 days	**5,000**	12,300
91–180 days	**110,523**	44,444
	148,043	89,308

The credit period on purchase of material is 30 to 120 days. The Group has financial risk management policies in place to monitor the settlement.

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25. Obligations under Finance Leases

	2015 RMB'000	2014 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**330**	311
Non-current liabilities	**8,168**	8,498
	8,498	8,809

The Group has leased certain of its plant and machinery under finance leases at fixed interest rate of 6.12% per annum (2014: 6.12% per annum). The lease term is 20 years (2014: 20 years).

	Minimum lease payments		Present value of minimum lease payments	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Obligations under finance leases payable:				
Within one year	**850**	850	**330**	311
Within a period of more than one year but not exceeding two years	**850**	850	**350**	330
Within a period of more than two years but not more than five years	**2,550**	2,550	**1,184**	1,116
Within a period of more than five years	**8,183**	9,033	**6,634**	7,052
	12,433	13,283	**8,498**	8,809
Less: future finance charges	**(3,935)**	(4,474)	**N/A**	N/A
Present value of lease obligations	**8,498**	8,809	**8,498**	8,809
Less: Amounts due for settlement within one year (shown under current liabilities)			**(330)**	(311)
Amounts due for settlement after one year			**8,168**	8,498

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

26. Amounts Due to Directors/Loans from a Non-Controlling Equity Owner of a Subsidiary

The amounts due to directors are unsecured, interest free and repayable on demand.

Loans from a non-controlling equity owner of a subsidiary are unsecured and carrying fixed interest rates from 0.99% to 1.14% (2014: from 0.99% to 1.37%) per annum.

The carrying amount of loans from a non-controlling equity owner of a subsidiary is repayable based on the scheduled repayment dates set out in the loan agreements:

	2015 **RMB'000**	2014 RMB'000
Within one year	**25,138**	43,470
Within a period of more than one year but not exceeding two years	**25,138**	23,973
Within a period of more than two years but not exceeding five years	**75,414**	71,920
Within a period of more than five years	**35,940**	58,220
	161,630	197,583
Less: Amounts due within one year shown under current liabilities	**(25,138)**	(43,470)
Amounts shown under non-current liabilities	**136,492**	154,113

27. Bank and Other Borrowings

BANK BORROWINGS

	2015 **RMB'000**	2014 RMB'000
Bank loans, secured	**818,223**	881,586
Carrying amount repayable:		
Within one year	**779,723**	829,086
Within in a period of more than one year but not exceeding two years	**14,000**	14,000
Within in a period of more than two years but not exceeding five years	**24,500**	38,500
	818,223	881,586
Less: Amounts due within one year shown under current liabilities	**(779,723)**	(829,086)
Amounts shown under non-current liabilities	**38,500**	52,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. Bank and Other Borrowings (Continued)

BANK BORROWINGS (Continued)

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

	2015 RMB'000	2014 RMB'000
USD	**1,198**	39,705
HKD	**27,497**	21,711
	28,695	61,416

Bank borrowings as at year end were secured by the pledge of assets as set out in note 34.

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

	2015	2014
Effective interest rate:		
Fixed rate borrowings	**2.58% to 7.22% per annum**	2.43% to 8.40% per annum
Variable rate borrowings	**2.40% to 6.69% per annum**	5.60% to 7.80% per annum

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

At 31 December 2015, variable-rate bank borrowings are amounting to RMB126,616,000 (2014: RMB283,500,000). The borrowings are arranged at the interest rate based on benchmark interest rate from the People's Bank of China ("Benchmark Rate") plus, if applicable, a premium and expose the Group to cash flow interest rate risk. At 31 December 2015, fixed rate bank borrowings are amounting to RMB691,607,000 (2014: RMB598,086,000).

As at 31 December 2015, secured bank borrowings include the discounting of (i) bills receivables from external trade customers amounting to RMB56,511,000 (2014: RMB74,974,000), and (ii) intra-group bills receivables amounting to RMB235,927,000 (2014: RMB242,746,000), to banks with recourse.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. Bank and Other Borrowings (Continued)

OTHER BORROWINGS

	2015 RMB'000	2014 RMB'000
Secured (note 1)	**56,730**	51,071
Unsecured (note 2)	**10,000**	–
	66,730	51,071
Carrying amount repayable:		
Within one year	**43,982**	30,288
Within a period of more than one year but not exceeding two years	**15,480**	20,437
Within a period of more than two years but not exceeding five years	**7,268**	346
	66,730	51,071
Less: Amount due within one year shown under current liabilities	**(43,982)**	(30,288)
Amounts shown under non-current liabilities	**22,748**	20,783

Note:

(1) The Group has entered into agreements (the "Agreements") with a PRC financial institute ("Financial Institute") whereby the Group drew down RMB39,821,000 (2014: RMB39,600,000) from the Financial Institute (included in other borrowings) which is to be repayable within 3 years at variable rates based on Benchmark Rate plus a premium, ranging from 10.13% to 12.95% (2014: 9.53% to 12.95%) per annum.

As collaterals for the above financing, the Group transferred the ownership title of the related machineries to the Financial Institute.

Upon discharging all the Group's obligations under the Agreements, the Financial Institute will return the ownership title of the machineries to the Group for nominal amount of RMB100. Despite the Agreements involve a legal form of a lease, the Group accounted for the Agreements, as collateralised borrowings in accordance with the actual substance of the Agreements.

(2) A loan of RMB10,000,000 (2014:nil) is included in other borrowings in the consolidated statement of financial position at 31 December 2015, which is obtained from a company controlled by a non-controlling equity owner of a subsidiary. The loan is arranged as an entrusted loan through a bank, which is to be repayable within 3 months at fixed interest rate of 4.35% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. Deferred Taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015	2014
	RMB'000	RMB'000
Deferred tax assets	**(868)**	(1,191)
Deferred tax liabilities	**2,074**	2,240
	1,206	1,049

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

	Deferred income	**Impairment on receivables**	**Depreciation differences**	**Undistributed profit of a subsidiary**	**Tax losses**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	–	(198)	2,444	600	–	2,846
Reversal of deferred tax liabilities upon distribution of profits	–	–	–	(600)	–	(600)
(Credit) Charge for the year	(394)	–	(204)	–	(599)	(1,197)
At 31 December 2014	(394)	(198)	2,240	–	(599)	1,049
(Credit) Charge for the year	**(276)**	**–**	**(166)**	**–**	**599**	**157**
At 31 December 2015	**(670)**	**(198)**	**2,074**	**–**	**–**	**1,206**

28. Deferred Taxation (Continued)

At the end of the reporting period, the Group has unused tax losses of RMB145,274,000 (2014: RMB170,787,000) available for offset against future profits. A deferred tax asset has been recognised in respect of nil (2014: RMB3,263,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB145,274,000 (2014: RMB167,524,000) due to the unpredictability of future profit streams. The unrecognised tax losses at the end of reporting period will be expired in the following years:

	2015 **RMB'000**	2014 RMB'000
2015	**N/A**	25,059
2016	**54,694**	54,694
2017	**51,314**	51,314
2018	**18,356**	18,356
2019	**11,310**	18,101
2020	**9,600**	N/A
	145,274	167,524

Under the EIT law of PRC, withholding tax is imposed on 10% of dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB404,050,000 (2014: RMB357,122,000). No deferred tax liabilities have been recognised in respect of these difference because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such difference will not reverse in the foreseeable future.

29. Share Capital

	Number of shares	**Nominal value** HK$
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2014, 31 December 2014 and 31 December 2015	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 31 December 2015	500,000,000	50,000,000

	RMB'000
Presented as at 31 December 2014 and 2015	41,655

There were no changes in the Company's authorised, issued and fully paid share capital during the both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

30. Deferred Income

In 2012, the Group received a government subsidy of RMB23,800,000 for the cost of construction of its corrugated medium paper plant. The amount was treated as deferred income at 31 December 2015 and 2014.

In 2015, the Group also received government subsidies of RMB7,550,000 (2014:RMB3,237,000) for the cost of constructions of its paper-based package plant and the replacement of machineries. The amounts were treated as deferred income at 31 December 2015. The amounts are transferred to income over the useful lives of the relevant assets.

31. Capital Risk Management

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

The capital structure of the Group consists of debts, which includes loans from a non-controlling equity owner of subsidiaries and bank borrowings and other borrowings as disclosed in note 26 and 27 separately, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

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

32. Financial Instruments

a. Categories of financial instruments

	2015 **RMB'000**	2014 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,133,898**	1,199,352
Financial assets designated as at fair value through profit or loss	**10,000**	5,000
Financial liabilities (excluded obligations under finance leases)		
Amortised cost	**1,661,133**	1,763,140

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, short-term investment, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to directors, bank and other borrowings, obligations under a finance lease and loans from a non-controlling equity owner of a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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

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

(i) *Currency risk*

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

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

The carrying amount of the Group's foreign currency denominated monetary assets (mainly including bank balances and cash, pledged bank deposits, trade and other receivables) and monetary liabilities (mainly including trade and other payable, bank borrowings and loans from a non-controlling equity owner of a subsidiary) at the reporting date are as follows:

	2015	2014
	RMB'000	RMB'000
Assets		
USD	**1,285**	29,853
HKD	**1,127**	5,000
Liabilities		
USD	**11,946**	43,349
HKD	**27,457**	38,335
JPY	**162,290**	197,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The Group mainly exposes to the currency of USD, HKD and JPY relative to RMB.

The following table details the Group's sensitivity to a 10% (2014: 10%) increase and decrease in RMB against the relevant foreign currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2014: 10%) change in foreign currency rates. The sensitivity analysis includes bank borrowings, loans from a non-controlling equity owner of a subsidiary as well as bank balances denominated in foreign currencies. A positive number below indicates an increase in post-tax profit where the RMB strengthens 10% (2014:10%) against the relevant currency. For a 10% weakening of RMB against the relevant currency, they would be an equal and opposite impact on the profit.

	2015	2014
	RMB'000	RMB'000
USD		
Profit or loss	**801**	968
HKD		
Profit or loss	**2,213**	2,798
JPY		
Profit or loss	**12,172**	15,263

(ii) Interest rate risk

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

The Group's fair value interest rate risk relates primarily to its fixed rate pledged bank deposits, obligations under finance leases, bank borrowings and loans from a non-controlling equity owner of a subsidiary. The Group currently does not use any interest rate hedging policy to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

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

Sensitivity analysis

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

The sensitivity analyses below have been determined based on the exposure to interest rates for the variable-rate bank and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2014: 50 basis points) increase or decrease for variable bank and other borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates in respect of bank and other borrowings.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variable were held constant, the Group's: post-tax profit for the year ended 31 December 2015 would decrease/increase by RMB753,000 (2014: RMB1,416,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Price risk

The Group is exposed to price risk through its short-term investments. The directors of the Company consider the price risk is insignificant as the Group only invests in products issued by banks with good reputation.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

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

The Group has concentration of credit risk as 25% (2014: 26%) of total trade receivables represented amounts due from the Group's largest three (2014: three) trade debtors as at 31 December 2015. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivable from these customers is recoverable.

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

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

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.

In light of the Group's net current liabilities of RMB258,472,000 (31 December 2014: RMB:259,312,000) as at 31 December 2015 , the Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2015, the Group has available unutilised banking facilities of approximately RMB287,780,000 (2014: RMB395,397,000).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. Financial Instruments (Continued)

b. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity table

	Weighted average interest rate %	On demand or less than 6 months RMB'000	6 months to 1 year RMB'000	1-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2015							
Trade and other payables	**N/A**	**611,930**	**–**	**–**	**–**	**611,930**	**611,930**
Amounts due to directors	**N/A**	**2,620**	**–**	**–**	**–**	**2,620**	**2,620**
Bank borrowings							
— fixed rate	**4.81**	**464,113**	**242,152**	**–**	**–**	**706,265**	**691,607**
— variable interest rate	**4.57**	**54,313**	**37,757**	**41,335**	**–**	**133,405**	**126,616**
Loans from a non-controlling equity owner of a subsidiary							
— fixed rate	**1.10**	**13,428**	**13,368**	**104,432**	**36,280**	**167,508**	**161,630**
Obligations under a finance lease							
— fixed rate	**6.12**	**425**	**425**	**3,400**	**8,183**	**12,433**	**8,498**
Other borrowings							
— fixed rate	**4.35**	**10,033**	**–**	**–**	**–**	**10,033**	**10,000**
— variable interest rate	**10.62**	**21,364**	**16,727**	**24,538**	**–**	**62,629**	**56,730**
		1,178,226	**310,429**	**173,705**	**44,463**	**1,706,823**	**1,669,631**
2014							
Trade and other payables	N/A	630,663	–	–	–	630,663	630,663
Amounts due to directors	N/A	2,237	–	–	–	2,237	2,237
Bank borrowings							
— fixed rate	5.56	461,727	149,656	–	–	611,383	598,086
— variable interest rate	6.18	192,746	46,829	64,068	–	303,643	283,500
Loans from a non-controlling equity owner of subsidiaries							
— fixed rate	1.10	45,231	25,629	99,591	34,571	205,022	197,583
Obligations under a finance lease							
— fixed rate	6.12	425	425	3,400	9,033	13,283	8,809
Other borrowings							
— variable interest rate	11.51	18,465	15,842	21,906	–	56,213	51,071
		1,351,494	238,381	188,965	43,604	1,822,444	1,771,949

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

32. Financial Instruments (Continued)

c. Fair value

The short-term investment (see note 23) is measured at fair value at the end of each reporting period. The fair value of short-term investment was RMB10,000,000 as at 31 December 2015 (2014: RMB5,000,000) which are determined with reference to discounted cash flow model, which is based on the expected return of the structured deposits. The fair value measurement is classified under level 2 of the fair value hierarchy.

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

33. Business Combination

For the year ended 31 December 2014

(a) Subsidiaries acquired

On 1 April 2014, the Group acquired from independent third parties the 58.7% equity interests of Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited ("Lian He") and Zhongshan Ren Hing Paper Manufacturing Company Limited ("Lian Xing") for a total cash consideration of RMB141,914,000. This acquisition has been accounted for using the purchase method. Lian He and Lian Xing are engaged in the manufacture and sale of corrugated papers and paper boards in the PRC. Lian He and Lian Xing were acquired to expand the operations of the corrugated medium paper segment and their operating results have been included in the corrugated medium paper segment.

(b) Consideration transferred

	RMB'000
Cash	141,914

Acquisition-related costs amounting to RMB260,000 have been excluded from the consideration transferred and have been recognised as an expense during the year ended 31 December 2014, within the other expenses in the statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. Business Combination (Continued)

For the year ended 31 December 2014 (Continued)

(c) Assets acquired and liabilities recognised at the date of acquisition

	Lian He & Lian Xing RMB'000
Inventories	57,305
Trade and other receivables	161,703
Pledged bank deposits	2,657
Bank balances and cash	18,720
Property, plant and equipment	282,668
Prepaid lease payment	126,000
Deposit for acquisition of property, plant and equipment	2,090
Trade and other payables	(181,221)
Bank borrowings	(18,441)
Loans from a non-controlling equity owner of subsidiaries	(209,720)
Net assets acquired	241,761

The fair value of trade and other receivables at the date of acquisition amounted to RMB161,703,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB176,935,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB15,232,000.

(d) Non-controlling interests

The non-controlling interests (41.3%) in Lian He and Lian Xing recognised at the acquisition date was measured at their proportionate share of net assets acquired and amounted to RMB99,847,000.

(e) Goodwill arising on acquisition

	Lian He & Lian Xing RMB'000
Consideration transferred	141,914
Plus: non-controlling interests (41.3%)	99,847
Less: fair value of identifiable net assets acquired	(241,761)
Goodwill arising on acquisition	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. Business Combination (Continued)

For the year ended 31 December 2014 (Continued)

(f) Net cash out flow on acquisition of subsidiaries

	2015 RMB'000
Consideration paid in cash	**141,914**
Less: cash and cash equivalent balances acquired	**(18,720)**
	123,194

Deposit for acquisition of subsidiaries paid during the year ended 31 December 2013 was RMB14,191,000, and the remaining consideration was paid during the year ended 31 December 2014.

34. Pledge of Assets

The following assets were pledged to secure certain banking and other facilities (including properties, plant and equipment under finance leases) granted to the Group at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Buildings and construction in progress	**85,057**	93,354
Plant and machinery	**242,344**	273,255
Land use right	**178,010**	163,375
Trade receivables	**80,000**	80,000
Bills receivables	**58,011**	80,440
Pledged bank deposits	**145,855**	145,932
Short-term investment	**10,000**	5,000
Inventories	**62,031**	60,341
	861,308	901,697

In addition to the pledge of assets above, bank borrowings of RMB235,927,000 (31 December RMB242,746,000) are secured by the discounted intra-group bills receivables as at 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. Operating Leases

The Group as lessee

Minimum lease payments under operating leases during the year:

	2015	2014
	RMB'000	RMB'000
Factory and office premises	**19,361**	22,829
Vehicles	**178**	167
	19,539	22,996

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:

	2015	2014
	RMB'000	RMB'000
Within one year	**15,964**	14,434
In the second to fifth year inclusive	**30,340**	27,808
Over five years	**18,716**	9,503
	65,020	51,745

Operating lease payments represent rentals payable by the Group for certain of its factory premises, and machineries and vehicles. Leases are negotiated for a term ranging from 1 year to 10 years (2014: 1 year to 7 years). Rentals are fixed at the date of signing of lease agreements.

36. Capital Commitments

	2015	2014
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of new property, plant and equipment and leasehold land contracted for but not provided in the consolidated financial statements	**32,267**	70,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. Share-Based Payment Transactions

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

Details of share-based payment options granted to the Group's employees and directors as follows:

Category of grantee	Date of grant	Vesting period	Exercise period	Exercise price HKD
Category I	20/01/2012	None	20/01/2012 — 30/06/2013	0.82
Category II	20/01/2012	20/01/2012 — 30/06/2013	01/07/2014 — 30/06/2014	0.82
Category III	20/01/2012	20/01/2012 — 30/06/2014	01/07/2015 — 30/06/2015	0.82

Of a total 21,350,000 share options, 7,260,000 share options were fully vested on date of grant as Category I, 7,010,000 share options were vested on 30 June 2013 as Category II and the remaining 7,080,000 share options were vested on 30 June 2014 as Category III.

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

	Outstanding at 01/01/2014	Lapsed/ Cancelled /Reclassified during the year	Outstanding at 31/12/2014	Lapsed during the year	Outstanding at 31/12/2015
Employees:					
Category I	–	–	–	–	–
Category II	4,510,000	(4,510,000)	–	–	–
Category III	4,550,000	840,000	5,390,000	(5,390,000)	–
	9,060,000	(3,670,000)	5,390,000	(5,390,000)	–
Directors:					
Category I	–	–	–	–	–
Category II	2,500,000	(2,500,000)	–	–	–
Category III	2,530,000	(1,680,000)	850,000	(850,000)	–
	5,030,000	(4,180,000)	850,000	(850,000)	–
Total	14,090,000	(7,850,000)	6,240,000	(6,240,000)	–
Exercisable at end of the year			6,240,000		–

Note:

(1) Reclassification is due to the resignation of a director during the year who continues to serve as an employee of the Group.

(2) Included in the number of share options granted to employees outstanding at 31 December 2014 are 550,000 and 840,000 granted to Mr. Hong Guanghua and Mr. Zhang Xiaoming respectively. They were appointed as directors of the Company in January 2015.

37. Share-Based Payment Transactions (Continued)

The exercise price of lapsed, cancelled and outstanding share options is HKD0.82.

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

During the year, the Group recognised the expense of share-based payments of nil (2014: RMB361,000).

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

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

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

38. Retirement Benefits Schemes

The Group operates a mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of a trustee. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees but subject to a maximum amount of HK$1,500 (2014: HK$1,250 per person per month prior to June 2014 and revised to HK$1,500 per month thereafter) for each employee.

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

The total cost charged to income of RMB18,405,000 (2014: RMB12,568,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

39. Related Parties Transactions

(a) Name and relationship

Name	Relationship
Zhongshan City Zheng Ye Leasing Company Limited ("Zheng Ye Leasing")	Controlled by the controlling shareholders of the Company
Zhongshan City Zhong Fa Equipment Rental Company Limited ("Zhong Fa Equipment")	Controlled by the controlling shareholders of the Company

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39. Related Parties Transactions (Continued)

(b) Related parties transactions

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

	2015 RMB'000	2014 RMB'000
Rental expenses of property — Zheng Ye Leasing	**4,432**	4,432
Rental expenses of vehicles — Zhong Fa Equipment	**139**	206
Purchase of vehicles — Zhong Fa Equipment	**113**	–

Zheng Ye Leasing also provided financial guarantees to the Group to secure the banking facilities with an aggregate amount of RMB149,060,000 (2014: RMB149,060,000) obtained by the Group. As at 31 December 2015, the amount of utilized facilities is RMB52,500,000 (2014: RMB66,500,000). The respective guarantee fee paid by the Group to Zheng Ye Leasing is RMB450,000 (2014: RMB450,000).

(c) Rental deposit of RMB450,000 (2014: RMB450,000) paid to Zheng Ye Leasing has been included in trade and other receivables in the consolidated statement of financial position at 31 December 2015.

Rental payables of nil (2014:RMB369,000) and nil (2014: RMB33,000) to Zheng Ye Leasing and Zhong Fa Equipment respectively have been included in trade and other payables in the consolidated statement of financial position at 31 December 2015.

Guarantee fee payable to Zheng Ye Leasing of RMB450,000 (2014:nil) has been included in trade and other payables in the consolidated statement of financial position at 31 December 2015.

Purchase payable of RMB113,000 (2014:nil) paid to Zhong Fa Equipment has been included in trade and other payables in the consolidated statement of financial position at 31 December 2015.

(d) Related parties balances

Amounts due to directors are disclosed on note 26.

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For the year ended 31 December 2015

39. Related Parties Transactions (Continued)

(e) Compensation of key management personnel

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

	2015 RMB'000	2014 RMB'000
Salaries and other benefits	**15,479**	18,564
Share-based payment	**–**	361
Retirement benefits scheme contributions	**278**	159
	15,757	19,084

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

During the year ended 31 December 2015, Zheng Ye Packaging (Zhongshan) sold two properties to key managements amounted to RMB 1,516,000. The balance is outstanding at 31 December 2015 and has been included in trade and other receivables in the consolidated statement of financial position at 31 December 2015.

40. Particulars of Subsidiaries of the Company

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December		Proportion of voting power held by the Company		Principal activities
				2015	2014	**2015**	2014	
TYAZ International Limited ("Zheng Ye (BVI)")	British Virgin Islands ("BVI")	Authorized US$50,000 US$10,000 *	Ordinary	**100%***	100%*	**100%**	100%	Investment holding
正業國際有限公司 Zheng Ye International Company Limited ("Zheng Ye International")	Hong Kong	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding
正業投資有限公司 Zheng Ye Investments Limited ("Zheng Ye Investments")	Hong Kong	HK$1	Ordinary	**100%**	N/A	**100%**	N/A	Investment holding
誠業（香港）投資實業有限公司 Shing Yip (Hong Kong) Investment Enterprises Limited ("Shing Yip (Hong Kong)")	Hong Kong	HK$10,000	Ordinary	**100%**	100%	**100%**	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. Particulars of Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2015	2014	Proportion of voting power held by the Company 2015	2014	Principal activities
正業包裝（中山）有限公司 Zheng Ye Packaging (Zhongshan) Company Limited ("Zheng Ye Packaging (Zhongshan)	PRC	HK$102,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging products
中山永發紙業有限公司 Zhongshan Yong Fa Paper Industry Company Limited ("Zhongshan Yong Fa Paper")	PRC	HK$106,500,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper and paperboard
中山正業聯合包裝有限公司 Zhongshan Zheng Ye Alliance Packing Company Limited ("Zheng Ye Alliance Packaging")	PRC	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Under deregistration
珠海正業包裝有限公司 Zhuhai Zheng Ye Packing Company Limited ("Zheng Ye Packaging (Zhuhai)")	PRC	HK$12,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and related packaging service
中山市中糖廢紙回收有限公司 Zhongshan City Zhong Tang Waste Paper Recycling Company Limited ("Zhong Tang Recycling")	PRC	RMB500,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper products
合肥市正業包裝有限公司 Hefei City Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Hefei)")	PRC	RMB 40,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
鄭州正業包裝有限公司 Zhengzhou Zheng Ye Packaging Company Limited ("Zheng Ye Packaging (Zhengzhou)")	PRC	RMB40,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. Particulars of Subsidiaries of the Company (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations	Paid up issued/ registered capital	Class of shares hold	Proportion ownership interest held by the Company At 31 December 2015	2014	Proportion of voting power held by the Company 2015	2014	Principal activities
石家莊正業包裝有限公司 Shijiazhuang Zheng Ye Packaging Company Limited("Zheng Ye Packaging (Shijiazhuang)")	PRC	RMB20,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products and printing of decorative packaging products
武漢正業聯合包裝有限公司 Wuhan Zheng Ye Alliance Packaging Company Limited ("Zheng Ye Packaging (Wuhan)")	PRC	RMB35,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper-based packaging products andprinting of decorative packaging products
合肥華嘉再生資源有限責任公司 Hefei Hua Jia Resource Recycling Company Limited ("Hefei Huajia")	PRC	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Procurement and wholesale business of waste paper
湖北永發紙業有限公司 Hubei Yong Fa Paper Industry Company Limited ("Hubei YongFa Paper")	PRC	RMB50,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper and paperboard
合肥誠業包裝有限公司 Hefei ShingYip Packaging Company Limited ("Hefei Shing Yip Packaging")	PRC	RMB10,000,000	Ordinary	**100%**	100%	**100%**	100%	Manufacturing and sale of paper based packaging products and printing of decorative packaging products
中山聯合鴻興造紙有限公司 Zhongshan Rengo Huang Hing Paper Manufacturing Company Limited ("Lian He")	PRC	USD53,660,000	Ordinary	**58.7%**	58.7%	**58.7%**	58.7%	Manufacturing and sale of paper and paper board
中山聯興造紙有限公司 Zhongshan Ren Hing Paper Manufacturing Company Limited ("Lian Xing")	PRC	USD27,380,900	Ordinary	**N/A**	58.7%	**N/A**	58.7%	Deregistered in March 2015
中山市聯發運輸有限公司 Zhongshan Lianfa Transportation Company Limited	PRC	RMB5,000,000	Ordinary	**100%***	N/A	**100%**	N/A	Transportation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. Details of a Non-Wholly Owned Subsidiary That have Material Non-Controlling Interests

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2015	31/12/2014	**31/12/2015**	31/12/2014	**31/12/2015**	31/12/2014
				RMB'000	RMB'000	**RMB'000**	RMB'000
Lian He & Lian Xing	Zhongshan, PRC	**41.3%**	41.3%	**1,557**	9,009	**110,413**	108,856

As disclosed in note 33, the Group acquired 58.7% equity interests in a business which housed in two companies — Lian He and Lian Xing in 2014. Subsequent to the acquisition, the Group underwent a restructuring in which the business of Lian Xing together with its assets and liabilities were transferred to Lian He. Consequently Lian Xing was put into deregistration in 2014 and completed in March 2015. Accordingly, the summarised financial information of Lian He and Lian Xing is presented on a combined basis below. The summarised financial information below represents amount before intragroup eliminations.

	2015	2014
	RMB'000	RMB'000
Current assets	**164,592**	126,119
Non-current assets	**438,964**	432,840
Current liabilities	**(182,937)**	(141,272)
Non-current liabilities	**(153,276)**	(154,113)
Equity attributable to owners of the Company	**(156,930)**	(154,718)
Non-controlling interests	**(110,413)**	(108,856)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. Details of a Non-Wholly Owned Subsidiary That have Material Non– Controlling Interests (Continued)

	1 January 2015 to 31 December 2015 RMB'000	1 April 2014 to 31 December 2014 RMB'000
Revenue	**399,801**	173,965
Expenses	**(396,032)**	(152,153)
Profit and total comprehensive income for the year/period	**3,769**	21,812
Profit and total comprehensive income attributable to owners of the Company	**2,212**	12,803
Profit and total comprehensive income attributable to the non-controlling of the Company	**1,557**	9,009
Profit and total comprehensive income for the year/period	**3,769**	21,812
Net cash inflow from operating activities	**24,879**	24,837
Net cash outflow from investing activities	**(32,979)**	(39,151)
Net cash inflow from financing activities	**18,464**	250
Net cash inflow (outflow)	**10,364**	(14,064)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. Statement of Financial Position of the Company

	2015 RMB'000	2014 RMB'000
Non-current Assets		
Unlisted investment in a subsidiary	**140,267**	140,267
Amounts due from subsidiaries	**125,887**	117,461
Property, plant and equipment	**13**	26
	266,167	257,754
Current Assets		
Bank balances and cash	**55**	528
Other receivables	**241**	526
Dividend receivables	**–**	13,530
Amounts due from subsidiaries	**14,868**	11,556
	15,164	26,140
Current Liabilities		
Other payables	**66**	170
Borrowings	**–**	17,785
	66	17,955
Net Current Assets	**8,979**	8,185
Total Assets less Current Liabilities	**281,265**	265,939
Capital and Reserves		
Share capital	**41,655**	41,655
Reserves (note)	**146,642**	131,316
Share premium	**92,968**	92,968
Total Equity	**281,265**	265,939

Note:

Movement in reserves for the year ended 31 December 2015 represent the profit and total comprehensive income for the year of RMB15,326,000.

FINANCIAL SUMMARY

Consolidated results

	For the year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Revenue	1,163,803	1,242,371	1,445,749	1,714,190	**1,807,765**
Profit before taxation	58,876	62,167	47,265	59,766	**56,718**
Income tax expense	(12,436)	(10,750)	(12,437)	(11,227)	**(14,025)**
Profit for the year	46,440	51,417	34,828	48,489	**42,693**
Attributable to:					
the owners of the Company	46,440	51,417	34,828	39,480	**41,136**
non-controlling interests	–	–	–	9,009	**1,557**
	46,440	51,417	34,828	48,489	**42,693**

Consolidated assets and liabilities

	At 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Total assets	1,452,726	1,803,516	2,064,643	2,566,508	**2,499,010**
Total liabilities	(981,939)	(1,305,744)	(1,546,443)	(1,910,061)	**(1,799,870)**
Net assets	470,787	497,772	518,200	656,447	**699,140**

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

Note 2: Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares listed on the Stock Exchange during the period from the date of the Listing (i.e. 3 June 2011) to 31 December 2015.