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

(incorporated in Bermuda with limited liability)
Stock Code: 3363

GLOBAL OFFERING

Sole Sponsor

招銀国际
CMB INTERNATIONAL

Joint Global Coordinators and Joint Bookrunners

東英 ORIENTAL PATRON

招銀国际
CMB INTERNATIONAL

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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

(incorporated in Bermuda with limited liability)

GLOBAL OFFERING

Number of Offer Shares	**:**	**125,000,000 New Shares (subject to the Over-allotment Option)**
Number of International Placing Shares	**:**	**112,500,000 New Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	**:**	**12,500,000 New Shares (subject to adjustment)**
Offer Price	**:**	**HK$1.43 per Offer Share (plus brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, payable in full upon application and subject to refund)**
Nominal value	**:**	**HK$0.10 each**
Stock code	**:**	**3363**

Sole Sponsor

CMB INTERNATIONAL

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ORIENTAL PATRON

CMB INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the paragraph under "Documents delivered to the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. A copy of this prospectus, together with copies of the Application Forms, has been filed with the Registrar of Companies in Bermuda in accordance with the Companies Act. The SFC, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility for the contents of this prospectus or any of the other documents referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Hong Kong Public Offer Shares should note that the Hong Kong Underwriters are entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to be given by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus. Prospective investors should carefully refer to that section for further details.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than in Hong Kong. Accordingly, this prospectus or the related Application Forms may not be used for the purpose of, and does not (and is not intended to) constitute an offer or invitation in any jurisdiction outside Hong Kong or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus or the related Application Forms and the offering and sales of the Offer Shares in other jurisdictions may be restricted by law and therefore persons who possess this prospectus or any of the related Application Forms should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

24 May 2011

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on our website at **www.zhengye-cn.com** and the website of the Stock Exchange at **www.hkexnews.hk** if there is any change in the following expected timetable of the Hong Kong Public Offer.

	2011(1)
Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website **www.hkeipo.hk**(2)	11:30 a.m. on Friday, 27 May
Application Lists open(3)	11:45 a.m. on Friday, 27 May
Latest time to lodge **WHITE** and **YELLOW** Application Forms(3)	12:00 noon on Friday, 27 May
Latest time to give **Electronic Application Instructions** to HKSCC(3)(4)	12:00 noon on Friday, 27 May
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 27 May
Application Lists close	12:00 noon on Friday, 27 May
Announcement of the level of indication of interests in the International Placing, the level of applications in the Hong Kong Public Offer, and the basis of allotment of the Hong Kong Public Offer Shares to be published in (a) the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese); (b) on the website of our Company at **www.zhengye-cn.com**; and (c) on the website of the Stock Exchange at **www.hkex.com.hk** on or before	Thursday, 2 June
Result of applications and Hong Kong identity card/passport/ Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer to be available under a variety of channels as described in the section headed "How to apply for Hong Kong Public Offer Shares — 15. Announcement of results of Hong Kong Public Offer" in this prospectus including the website of our Company at **www.zhengye-cn.com**, the website of the Stock Exchange at **www.hkexnews.hk** and the website of Tricor Investor Services Limited at **www.tricor.com.hk/ipo/result** from	Thursday, 2 June
Despatch of share certificates of the Offer Shares or deposit of share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications to the Hong Kong Public Offer on or before(6)	Thursday, 2 June

Despatch of HK eIPO White Form e-Auto Refund payment instructions and refund cheques in respect of wholly successful (if applicable) and wholly or partially unsuccessful applications to the Hong Kong Public Offer on or before[(5)(6)] . . . . Thursday, 2 June

Dealings in the Shares on the Main Board to commence at 9:00 a.m. on . . . . Friday, 3 June

Notes:

1. Unless otherwise stated, all times and dates refer to Hong Kong local times and dates.

2. You will not be permitted to submit your application through the designated website **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 May 2011, the Application Lists will not open and close on that day. Further information is set out in the paragraph headed "12. Effect of bad weather on the opening of the Application Lists" under the section headed "How to apply for Hong Kong Public Offer Shares" in this prospectus.

4. Applicants who apply for the Hong Kong Public Offer Shares by giving **Electronic Application Instructions** should refer to the paragraph headed "9. How to apply by giving **Electronic Application Instructions** to HKSCC" under the section headed "How to apply for Hong Kong Public Offer Shares" in this prospectus.

5. HK eIPO White Form e-Auto Refund payment instructions and refund cheques will be made/issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer and also in respect of wholly or partially successful applications in the event that the Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third-party for refund purpose. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.

6. Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Hong Kong Public Offer Shares under the Hong Kong Public Offer and have indicated in their applications that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Thursday, 2 June 2011. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Tricor Investor Services Limited at the time of collection. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Public Offer Shares under the Hong Kong Public Offer may collect their refund cheques, if any, in person but may not elect to collect their share certificates which will be deposited into CCASS for the credit of their designated CCASS participants' stock accounts or CCASS investor participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to apply for Hong Kong Public Offer Shares — 9. How to Apply by giving **Electronic Application Instructions** to HKSCC" in this prospectus for details. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants' own risk to the

addresses specified in the relevant applications. Further information is set out in the section headed "How to apply for Hong Kong Public Offer Shares — 17. Despatch/collection of share certificates, e-Auto refund payment instructions and refund cheques" in this prospectus.

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Global Offering has become unconditional; and (ii) the right of termination as described in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus has not been exercised and has lapsed.

This prospectus is issued by Zhengye International Holdings Company Limited solely in connection with the Hong Kong Public Offer and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.

We have not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors or any other persons or parties involved in the Global Offering.

Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As the following is a summary, it does not contain all the information that may be important to you and you should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.

Various expressions used in this summary are defined in the section headed "Definitions" in this prospectus.

OVERVIEW

We are a manufacturer of paper-based packaging products in the PRC capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability. Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper, and production of paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment.

Our principal products are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and are suitable for the packaging of consumer products, in particular household air-conditioners and other small household appliances; and (ii) high-strength corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes, and is mainly sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely, Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging). In order to capture the increasing market demand, we have commenced the commercial production of honeycomb paper-based products since December 2010.

The following table shows the breakdown of our revenue by business lines during the Track Record Period:

	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Revenue by product						
Paper-based packaging products	371,571	44.4%	388,497	52.3%	565,942	53.7%
Corrugated medium paper	464,838	55.6%	354,854	47.7%	487,360	46.3%
Total	**836,409**	**100.0%**	**743,351**	**100.0%**	**1,053,302**	**100.0%**

The following table shows the breakdown of our Group's sales of paper-based packaging products to manufacturers of household air-conditioners, small household appliances and food condiment in the PRC during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Customer segment						
Household air-conditioners	185,907	50%	185,845	48%	335,934	59%
Small household appliances	66,960	18%	82,216	21%	117,152	21%
Food condiment	64,431	17%	77,096	20%	81,057	14%
Others	54,273	15%	43,340	11%	31,799	6%
Total	371,571	100%	388,497	100%	565,942	100%

Apart from internal use within our Group, we also sell our Group's corrugated medium paper to third parties. The following table shows the breakdown of the percentage of our Group's corrugated medium paper sold to third parties and our Group's companies respectively during the Track Record Period:

	Year ended 31 December		
	2008	2009	2010
Third parties *(note)*	87%	78%	81%
Our Group's companies	13%	22%	19%

Note: Third parties include manufacturers of corrugated paperboard and cartons other than our Group's companies.

	Year ended 31 December		
	2008	2009	2010
Quantity sold by product			
Paper-based packaging products ('000 sq.m.)	109,895	127,406	164,686
Corrugated medium paper ('000 tonne)	177	183	168
Average selling price (RMB)			
Paper-based packaging products (per sq.m.)	3.4	3.0	3.4
Corrugated medium paper (per tonne)	2,626	1,939	2,901

OUR PRODUCTS

Our principal products are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products; and (ii) high-strength corrugated medium paper. Approximately 44.4%, 52.3% and 53.7% of our total revenue during the Track Record Period was generated from our paper-based packaging products, of which approximately 22.2%, 25.0% and 31.9% of our total revenue was generated from our sales to household air-conditioner manufacturers.

According to the Synovate Report commissioned by our Group, paper-based packaging for household air-conditioners in the PRC accounted for approximately 24.0% of the total revenue generated in the PRC paper-based packaging business for major household appliances (commonly known as "white goods") in 2009. We were the largest supplier of paper-based packaging products for household air-conditioners in the PRC and our sales volume and revenue accounting for approximately 28.7% and 25.7% of the total paper-based packaging products for household air-conditioners in the PRC for the year ended 31 December 2009, respectively. Further, according to the China Packaging Federation, we were the largest supplier of paper-based packaging products for household air-conditioners in the PRC in terms of production volumes for the year ended 31 December 2009. For background and industry standing of the China Packaging Federation, please refer to the section headed "Definitions" in this prospectus. For the year ended 31 December 2009, our Group's paper-based packaging products accounted for approximately 30.5% of the total production volume of the paper-based packaging products for air-conditioners in the PRC. We sell our paper-based packaging products to consumer product manufacturers in various industries, targeting in particular major manufacturers of white goods, such as Gree, Midea and Galanz.

As we consider the quality of corrugated medium paper is very critical for the production of our high-quality paper-based packaging products, our Group also manufactures high-strength corrugated medium paper, which could satisfy our Group's demand for corrugated medium paper for producing our paper-based packaging products. We are also committed in the continuous development and production of low quantum corrugated medium paper. This could ensure the stable supply of quality raw materials for our Group's production of paper-based packaging products.

OUR CUSTOMERS AND SUPPLIERS

The target customers of our paper-based packaging products are large scale manufacturers of household appliances, food condiment, information technology and consumer electronics in the PRC. Our Group intends to build long term relationships with them, and adopts the system of placing orders for individual batches of purchase in our business. In addition, we have established a stable corrugated medium paper customer base, which we also adopt the sales model of orders for individual batches of purchase. Currently, we manufacture and sell corrugated medium paper and paper-based packaging products, major customers of which are manufacturers of corrugated paperboard and cartons and consumer products in various industries such as household appliances, food condiment, motor bike and information technology products. For each of the three years ended 31 December 2010, we had a total of 274, 331 and 346 customers respectively, most of whom have an average of three to seven years of business relationship with our Group. Our Group has established long term business relationship of approximately seven years with our major customers, such as Gree, Midea and Galanz, all of whom are the major household appliances manufacturers in the PRC.

The percentage of sales to Gree, Midea and Galanz during the Track Record Period was as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	% to total sales	*% to total sales*	*% to total sales*
Gree	12.3	14.3	19.3
Midea	6.1	6.8	8.3
Galanz	6.6	10.9	10.1

In order to obtain better pricing terms from our suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials and coal. We had a total of 467, 412 and 543 suppliers for each of the three years ended 31 December 2010, respectively, having an average of three to seven years of business relationship with our Group. As we maintain good relationship with our suppliers, we can benefit from assured quality, competitive purchase prices and steady and in-time deliveries, which, in turn, leads to the reduction of inventory costs. As the principal raw materials (including waste paper and raw paper) and coal are not rare or difficult to source, our Directors do not anticipate any material difficulties in sourcing them. During the Track Record Period, we did not experience any material shortage of the principal raw materials. To maintain our business flexibility, our Group has not entered into any long-term agreements with our suppliers.

OUR PRODUCTION FACILITIES

Production line of corrugated cartons

As at the Latest Practicable Date, our Group carried out our production activities in our paper production plant in Zhongshan, Guangdong Province, the PRC and our four paper-based packaging processing plants in Zhongshan and Zhuhai, Guangdong Province, the PRC, respectively, occupying a total gross floor area of approximately 213,800 sq.m..

For our four paper-based packaging processing plants, we have eight production lines, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, six of which are for the production of corrugated cartons and the remaining two are for the production of honeycomb paper-based products. The second production line of corrugated cartons of our Zheng Ye Packaging (Zhuhai) was set up in September 2010, and commenced production in December 2010. The two production lines of honeycomb paper-based products were fully set up in the first half of 2010, and began trial production on 30 September 2010 with the completion of the first sales order in December 2010. Most of the remaining production lines attained utilisation rate of more than 70% for the year ended 31 December 2010.

Production line of corrugated medium paper

As at the Latest Practicable Date, our Group had one production line with an aggregate annual designed capacity of approximately 220,000 tonnes corrugated medium paper, comprising three paper making machines and pulp deeding systems. We are in the process of setting up the fourth paper making machine with an annual designed capacity of approximately 80,000 tonnes corrugated medium paper, which is scheduled to commence its operation in the second half of 2011. The paper making machines in operation attained an effective operating ratio of not less than 90% for the year ended 31 December 2010. All pulp feeding systems and paper making machines are supported by automated online quality control to ensure effective quality assurance for the products.

For details of our production facilities, please refer to "Business — Production — Production facilities" in this prospectus.

EXPANSION PLAN

In view of the potential business opportunity in the central China area, Zheng Ye Packaging (Zheng Zhou) was established on 27 April 2011 as we intend to set up our new paper-based packaging production plant with three production lines in Zhengzhou, Henan Province, the PRC, which is expected to contribute to our Group an additional annual production capacity of up to approximately 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the fourth quarter of 2011. Our expansion in Zhengzhou is still in a preliminary stage and we shall apply to the competent authorities for all the applicable licences and permits in due course.

In addition, Zheng Ye Packaging (He Fei) was established on 10 September 2010 for setting up our new production base in Hefei, Anhui Province, the PRC, where it is expected to become a growing hub for the household appliance industry. It is expected that this production base with three production lines will contribute to our Group an additional annual production capacity of up to approximately 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the first quarter of 2012. Our Group has filed with the competent authority regarding the construction plan of infrastructure such as factory and office building for our Hefei project, but we have yet to undergo procedures regarding land use, environmental protection, construction planning, etc.

The following table sets forth, among others, the details of our expansion plan, estimated total investment up to the Latest Practicable Date and sources of funding:

Details of expansion plan	Status of expansion	Date of expected commencement of production	Total investment up to the Latest Practicable Date	Expected time of completion of payment	Estimated total investment (RMB) and sources of funding
To establish a production plant in Zhengzhou, Henan Province, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products.	Zheng Ye Packaging (Zheng Zhou) was established in the PRC on 27 April 2011. We shall apply to the competent authorities for all the applicable licences and permits in due course. We expect to obtain the construction permit and commence the construction by the end of June 2011.	Fourth quarter of 2011	Nil	By the third quarter of 2012	RMB133,300,000; Net proceeds from the Global Offering and working capital
To establish a production plant in Hefei, Anhui Province, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products.	Zheng Ye Packaging (He Fei) was established in the PRC on 10 September 2010. We shall apply to the competent authorities for all the applicable licences and permits in due course. We expect to obtain the construction permit and commence the construction in the third quarter of 2011.	First quarter of 2012	RMB6,750,000	By the first quarter of 2013	RMB122,300,000; Net proceeds from the Global Offering and working capital

SUMMARY OF FINANCIAL INFORMATION

The selected summary information of our combined statements of comprehensive income and combined statements of financial information for the years ended 31 December 2008, 2009 and 2010 and the selected summary information of our combined balance sheets as at 31 December 2008, 2009 and 2010 were extracted from our combined financial information included in the accountant's report of our Company set out in Appendix I to this prospectus. You should read the entire financial information, including the notes thereto, included in Appendix I to this prospectus for more details.

The table below sets forth the summary information of our combined statements of comprehensive income for the three years ended 31 December 2008, 2009 and 2010:

Combined statements of comprehensive income

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

The table below sets forth the summary information of our combined balance sheets as at 31 December 2008, 2009 and 2010:

Combined statements of financial position

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	280,794	289,577	356,668
Current assets	487,449	599,549	790,553
Current liabilities	491,776	559,200	842,181
Net current (liabilities)/assets	(4,327)	40,349	(51,628)
Total assets less current liabilities	276,467	329,926	305,040
Non-current liabilities	10,692	15,431	15,254
Total equity	265,775	314,495	289,786

Our Results of Operations

The revenue generated from our paper-based packaging products accounted for approximately 44.4%, 52.3% and 53.7% of our total revenue for each of the three years ended 31 December 2010, respectively. The average selling price per sq.m. of our paper-based packaging products was stable and maintained at a range from approximately RMB3.0 per sq.m. to RMB3.4 per sq.m. during the

Track Record Period, whereas contribution from the sales of our paper-based packaging products increased throughout the Track Record Period, due to our growing emphasis on promoting our paper-based packaging products, increasing demand by customers for such products due to favourable market conditions, as well as our effort in expanding our customer base from focusing on the air-conditioning industry in the past to a wider range of industries, including the household appliance and food condiment industries during the Track Record Period. With the rising portion of revenue generated from the paper-based packaging products, we recorded an increasingly stable overall gross profit margin during the Track Record Period. This is mainly attributable to higher stability in pricing and cost structure of paper-based packaging products segment. On the other hand, as a result of the rising portion of revenue generated from the paper-based packaging products, we may face a risk of longer payment cycle as a result of longer credit period we grant to the customers of our paper-based packaging products. For details, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Revenue — Paper-based packaging products" in this prospectus.

The revenue generated from our corrugated medium paper accounted for approximately 55.6%, 47.7% and 46.3% of our total revenue for each of the three years ended 31 December 2010, respectively. Our Group prioritises the internal supply of corrugated medium paper for the production of our paper-based packaging products with a view to ensuring product quality. We only consumed approximately 24%, 10% and 27% of corrugated medium paper from third parties for each of the three years ended 31 December 2010, respectively. Thus, Yong Fa Paper plays an important part in our integrated operations by satisfying the operation needs of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging and generating stable revenue to our Group by selling its quality corrugated medium paper to third parties. For the same period, after the internal consumption of corrugated medium paper for our own production of paper-based packaging products, approximately 87%, 78% and 81% of our corrugated medium paper was sold to third parties. Meanwhile, the average selling price per tonne of our corrugated medium paper maintained at a range from approximately RMB1,939 to RMB2,901. For details, please refer to the section "Financial information — Revenue — Corrugated medium paper" in this prospectus.

	Year ended 31 December		
	2008	**2009**	**2010**
	%	%	%
Gross Profit Margin			
Paper-based packaging products	18.4%	21.5%	18.3%
Corrugated medium paper	7.4%	15.6%	17.1%
Overall	**12.3%**	**18.7%**	**17.8%**

Our gross profit for each of the three financial years ended 31 December 2010 was approximately RMB102.9 million, RMB139.1 million and RMB187.0 million, respectively, while our gross profit margin for each of the three financial years ended 31 December 2010 was approximately 12.3%, 18.7% and 17.8%, respectively.

Our Group's gross profit margin for corrugated medium paper for the year ended 31 December 2008 of approximately 7.4% was relatively low as compared to that for the year ended 31 December 2009. As the then prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Since the average selling price of our corrugated medium paper after the outburst of the crisis in late 2008 decreased at a greater rate than that of our average purchase cost of waste paper for the year 2008, our gross profit margin decreased.

Throughout the year 2009, our gross profit margin for corrugated medium paper improved significantly due to the gradual improvement in the global economy after the financial crisis. Our Group's gross profit margin for corrugated medium paper then increased from approximately 15.6% to 17.1% for the year ended 31 December 2009 to the year ended 31 December 2010. During the same year, the gross profit margin for paper-based packaging products increased to approximately 21.5% for the year ended 31 December 2009 but then decreased to approximately 18.3% for the year ended 31 December 2010. The decrease in the gross profit margin of paper-based packaging products was mainly due to the increase in the cost of raw paper during the year ended 31 December 2010. For details please refers to the section "Financial information — Description of certain components of statements of comprehensive income — Gross profit and gross profit margin" in this prospectus.

We had net current liabilities of approximately RMB4.3 million and RMB51.6 million as at 31 December 2008 and 31 December 2010, respectively. Our net current liabilities positions were principally attributed to the utilisation of short-term bank borrowings from licensed banks in the PRC to finance our business operations and capital expenditure for the respective financial periods. For details, please refer to the section "Financial information — Liquidity, financial resources and capital structure" in this prospectus.

Our Directors have confirmed that there have been no material adverse changes in the financial and trading position or prospects of our Group since 31 December 2010 and up to the date of this prospectus.

LEGAL AND REGULATORY MATTERS

We breached certain laws and regulations inadvertently during the Track Record Period of different nature, including failure to arrange our properties for proper procedural check by the relevant government authorities, failure to provide housing provident fund for certain employees and delayed in making capital contribution in certain PRC subsidiaries within the required time frame. As at the Latest Practicable Date, we had taken remedial actions to rectify the non-compliance incidents. For details of such non-compliance incidents, remedial actions taken and status, please refer to the section headed "Business — Legal and regulatory matters" in this prospectus.

PRC GOVERNMENT'S INITIATIVES TO ENCOURAGE SPENDING ON HOUSEHOLD APPLIANCES

Due to strong personal disposable income growth and rising living standards in the PRC, it is expected that the demand for "white goods" in terms of quality and value will continue to rise. Moreover, with the implementation of the Rural Appliance Rebate Program which encourages spending on household appliances, it is expected that the overall sales of household appliances shall continue to increase. Our Directors believe that such initiative to encourage spending on household appliances could stimulate the demand for household appliances, which would increase the demand of our paper-based packaging products by our customers, which include major manufacturers of household appliances. Sales of approximately RMB252.9 million, RMB268.1 million and RMB453.1 million, representing approximately 68%, 69% and 80% of our revenue from the paper-based packaging product segment was derived from household appliances manufacturers for the three years ended 31 December 2010, and which accounted for approximately 30%, 36% and 43% of our total revenue for the same period. The Rural Appliance Rebate Program will expire on 30 November 2012 and another state policy, the Change of the Old for New Program, will expire on 31 December 2011. In addition, social advocacy of environmental protection would also fuel the demand for more environmentally friendly packaging. In particular, our Directors believe that the recent trend to fully replace the use of foam and plastic in packaging has induced the demand for alternative packaging materials (such as corrugated medium paper) and alternative packaging products (including corrugated paperboards and cartons), which in turn accelerates the growth potential for our paper-based packaging products. According to the Packaging Report, as the development of the PRC packaging industry and the consumer demand are highly correlated, it is expected that there will be an enormous growth potential at a CAGR of approximately 14.9% in the corrugating carton packaging industry in the PRC for the next three years.

Our Directors believe that our Group is competitive and well positioned in the paper-based packaging industry to capture the anticipated growth in the demand in the PRC for quality corrugated medium paper and paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment, given that (i) our Group focuses on serving large scale household appliances enterprises with paper-based packaging products with strong emphasis on packaging design and products development which can substitute traditional packaging materials; (ii) our long-term relationship with our major customers (many of which are reputable brand-name holders in the PRC); (iii) our highly automated production lines and stringent quality control measures; (iv) our own capability to produce high quality corrugated medium paper to ensure the stable supply and quality of critical raw materials for our Group's packaging business; and (v) our professional and experienced management team with in-depth knowledge in the industry.

PROPOSED USE OF NET PROCEEDS

Our Directors intend to apply the net proceeds from the Global Offering to finance our capital expenditure and business expansion, strengthen our capital base and improve our overall financial position. Based on the Offer Price of HK$1.43, the net proceeds from the Global Offering, assuming the Over-allotment Option is not exercised, and after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering, are estimated to be approximately HK$140.9 million. Our Directors currently intend to apply such net proceeds from the Global Offering as follows:

- approximately HK$49.3 million (equivalent to approximately 35% of our total estimated net proceeds) on setting up the manufacturing facilities in our new production base in Hefei, the PRC;

- approximately HK$42.3 million (equivalent to approximately 30% of our total estimated net proceeds) on setting up the manufacturing facilities in our new production base in Zhengzhou, the PRC;

- approximately HK$25.4 million (equivalent to approximately 18% of our total estimated net proceeds) on upgrading our production facilities;

- approximately HK$7.0 million (equivalent to approximately 5% of our total estimated net proceeds) on research and development;

- approximately HK$2.8 million (equivalent to approximately 2% of our total estimated net proceeds) on upgrading our ERP system;

- approximately HK$14.1 million (equivalent to approximately 10% of our total estimated net proceeds) for general working capital purposes.

We intend to apply the net proceeds for the above usages as soon as the funds are available.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK$166.8 million. We intend to apply the additional net proceeds to the above uses in the proportion stated above.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interest. We will also disclose the same in the relevant annual report.

STATISTICS OF THE GLOBAL OFFERING

	Based on the Offer Price of HK$1.43
Market capitalisation(1)	HK$715 million
Pro forma adjusted combined net tangible assets per Share(2)	HK$1.0

Notes:

(1) The calculation of market capitalisation is based on 500,000,000 Shares expected to be in issue following the completion of the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option and the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(2) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after making the adjustments set forth in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of a total of 500,000,000 Shares expected to be in issue following the completion of the Global Offering and the Capitalisation Issue, but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option and the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

If the Over-allotment Option is exercised in full, the number of Shares in issue will increase by 18,750,000 Shares (without taking into account any Shares that may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme).

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

"Application Form(s)"	**WHITE**, **YELLOW** and **GREEN** application form(s) or, where the context so requires, either of them that is used in connection with the Hong Kong Public Offer
"Application Lists"	the application lists for the Hong Kong Public Offer
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (other than a Saturday, Sunday and public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Bye-Laws"	the bye-laws of our Company approved and adopted on 4 March 2011, as amended or supplemented from time to time
"CAGR"	the acronym for compound annual growth rate
"Capitalisation Issue"	the issue of new Shares to be made upon the capitalisation of certain sum standing to the credit of the share premium account of the Company referred to in the paragraph headed "Further information about our Company and our subsidiaries — 3. Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"CENC"	北京華經縱横咨詢有限公司 (China Economy Network Consultation Company Limited*), a research, consulting and systems integration institution which provides information and market intelligence to government, banks, schools and commercial clients, which is an Independent Third Party

"Change of the Old for New Program"	家電以舊換新實施方案 (Change of the Old for New Program*), a program launched by the State Council pursuant to 國務院辦公廳關於轉發發改委等部門促進擴大內需鼓勵汽車家電以舊換新實施方案的通知(國辦發[2009]44號) (*The Notice on Change of the Old for New Program in Motor Vehicle and Household Appliances Industry to Boost Domestic Consumption issued by the State Council of the PRC on behalf of PRC National Development and Reform Commission and other authorities (No. 44 of 2009 of the National Development and Reform Commission)**) promulgated and implemented on 1 June 2009 and the relevant implementation rules issued on 28 June 2009. Pursuant to this program, domestic households are entitled to a 10% discount for the purchase of new products in any of the five categories namely, TV sets, refrigerators, washing machines, air-conditioners and personal computers. The program is set to expire on 31 December 2011
"China Leading Packaging Enterprise"	China Leading Packaging Enterprise, an industry recognition awarded by the China Packaging Federation. Some of the key selection criteria are as follows: enterprises whose products are advanced, innovative and considered benchmarks for the industry and who are industry leaders in terms of economic and technical indicators; whose products have significant market shares with a high degree of customer satisfaction and brand recognition; whose production is in accordance with the advanced standards at industry, national and international levels; and should be equipped with advanced production technologies with proven strengths in technological innovation and research and development
"China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division"	國家輕工業紙張質量監督檢測廣州站 (China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division*), a quality supervision and inspection division for paper products under the Guangdong provincial authorities for technology and quality supervision, located within the Guangdong Papermaking Research Institute, founded in 1978. It received the measurement certification and examination approval of the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and the Administration of Quality and Technology Supervision of Guangdong Province in 1989 and subsequently passed numerous reviews and re-examinations. It has been authorised and qualified to inspect, among others, 145 types of paper and packaging products. The quality of our Group's corrugated medium paper has been tested against various technical benchmarks, such as, quantum, apparent density, ring crush index, creasing index, longitudinal fracture length, etc., by China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division to have achieved the excellent standard, the highest ranking among the three-level ranking, the remaining two being the good standard and the pass standard

"China Packaging Federation"	China Packaging Federation, a national industry federation established with the approval of the State Council of the PRC. Its predecessor, China Packaging Technology Association, was established in 1980 and was renamed as China Packaging Federation on 2 September 2004 with the approval of the Ministry of Civil Affairs of the PRC. China Packaging Federation has 20 professional committees, with a nation-wide industrial network with approximately 6,000 members of various levels as at the Latest Practicable Date. Its mission is to focus on China's economic construction and promote sustained, rapid, healthy and harmonious development of China's packaging industry under the direct administration of the State-owned Assets Supervision and Administration Commission through the "Three-Service Principles" (i.e. to serve the enterprises, serve the industry and serve the government), and relying on the local packaging associations and packaging enterprises all over China
"China Paper Association"	中國造紙協會 (China Paper Association*), a social entity founded in Beijing, the PRC in 1992 and established under guidance of the relevant departments of the State Council and officially registered with the Ministry of Civil Affairs of the PRC. To the best knowledge and belief of our Directors, China Paper Association is a national trade association, composed of industry organisations in various parts of the PRC, and serves as a bridge and link between the government and the paper industry in the PRC with the mission to enhance the quality and economic performance of the paper industry of the PRC. China Paper Association is an Independent Third Party
"CISL"	Cinda International Securities Limited, a corporation licensed under the SFO permitted to conduct type 1 (dealing in securities) of the regulated activities (as defined in the SFO), acting as one of the Joint Lead Managers of the Global Offering
"CMBI" and/or "Sole Sponsor"	CMB International Capital Limited, a corporation licensed under the SFO permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO), acting as the Sole Sponsor of the Listing, and one of the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers of the Global Offering
"Companies Act"	the Companies Act 1981 of Bermuda, as amended or supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Zhengye International Holdings Company Limited (正業國際控股有限公司), an exempted company incorporated in Bermuda with limited liability on 18 August 2010
"Connected Person(s)"	has the meaning ascribed to it under the Listing Rules

"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, in the context of this prospectus, means any one of the Hu Brothers and Hu Hanchao Investment, Hu Hancheng Investment, Hu Hanxiang Investment and Hu Zheng Investment
"Director(s)"	the director(s) of the Company
"ERP system"	the enterprise resource planning system, a comprehensive software designed to integrate business processes and functions, by permitting the sharing of common data and practices in a real-time environment
"g" or "g."	gram, a metric unit of weight
"g/m^2"	grams per sq.m.
"Galanz"	廣東格蘭仕集團有限公司 (Guangdong Galanz Group Company Limited*), a company incorporated in the PRC with limited liability, and its subsidiaries, being Independent Third Parties
"GDP"	gross domestic product
"Global Offering"	the International Placing and the Hong Kong Public Offer
"Gree"	Gree Electric Appliances, Inc. of Zhuhai (珠海格力電器股份有限公司), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000651: CH), and its subsidiaries, being Independent Third Parties
"Group", "our Group", "we" or "us"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of the Company at the time
"Haitian"	Foshan Hai Tian Flavouring & Food Co., Ltd. (佛山海天調味食品股份有限公司), a company incorporated in the PRC with limited liability, being Independent Third Parties
"HK$" or "HK dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HK eIPO White Form"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **HK eIPO White Form** Service Provider, **www.hkeipo.hk**
"HK eIPO White Form Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website **www.hkeipo.hk**
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited

"Honeycomb Report"	《2010年中國蜂窩紙製品價格走勢調查及影響因素深度調研報告》 (In-depth Research Report on the Pricing Trend and Factors of China's Honeycomb Paper-based Products 2010*) issued by CENC in September 2010
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Public Offer"	the offer of the Hong Kong Public Offer Shares for the subscription by the public in Hong Kong for cash at the Offer Price, subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"Hong Kong Public Offer Shares"	the 12,500,000 New Shares initially offered for subscription under the Hong Kong Public Offer (subject to adjustment as described in the section headed "Structure and conditions of the Global Offering" in this prospectus)
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offer whose names are set forth in the section headed "Underwriting" in this prospectus
"Hong Kong Underwriting Agreement"	the conditional underwriting agreement dated 23 May 2011 relating to the Hong Kong Public Offer and entered into among our Company, the Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers and the Hong Kong Underwriters relating to the Hong Kong Public Offer, details of which are set forth in the section headed "Underwriting" in this prospectus
"Hu Brothers"	Mr. Hu Hanchao, Mr. Hu Hancheng, Mr. Hu Hanxiang and Mr. Hu Zheng
"Hu Hanchao Investment"	Leading Innovation Worldwide Corporation, a limited liability company incorporated in BVI and wholly-owned by Mr. Hu Hanchao
"Hu Hancheng Investment"	Golden Century Assets Limited, a limited liability company incorporated in BVI and wholly-owned by Mr. Hu Hancheng
"Hu Hanxiang Investment"	Fortune View Services Limited, a limited liability company incorporated in BVI and wholly-owned by Mr. Hu Hanxiang
"Hu Zheng Investment"	Gorgeous Rich Development Limited, a limited liability company incorporated in BVI and wholly-owned by Mr. Hu Zheng
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with any member of our Group, the Directors, chief executive and the Substantial Shareholder and its subsidiaries and their respective associates

"International Placing"	the conditional international placing of the International Placing Shares through the International Underwriters, acting on behalf of our Company, for cash at the Offer Price, with professional, institutional and individual investors in certain jurisdictions as described in the section headed "Structure and conditions of the Global Offering" in this prospectus
"International Placing Shares"	the 112,500,000 New Shares initially being offered by our Company for subscription under the International Placing (subject to the reallocation as described in the section headed "Structure and conditions of the Global Offering" in this prospectus) together, where relevant, with any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option
"International Underwriters"	the underwriters of the International Placing Shares who are expected to enter into the International Underwriting Agreement to underwrite the International Placing Shares
"International Underwriting Agreement"	the conditional underwriting agreement expected to be entered into on or before 2 June 2011 between, amongst others, our Company and the International Underwriters relating to the International Placing, details of which are set forth in the section headed "Underwriting" in this prospectus
"Joint Global Coordinators" and "Joint Bookrunners"	OPSL and CMBI
"Joint Lead Managers"	OPSL, CMBI and CISL
"Latest Practicable Date"	17 May 2011, being the latest practicable date prior to the publication of this prospectus for ascertaining certain information contained in this prospectus
"Lee Kum Kee"	李錦記(新會)食品有限公司 (Lee Kum Kee (Xinhui) Food Company Limited*), an enterprise with investment of Taiwan, Hong Kong, Macao and overseas Chinese established in the PRC with limited liability, being an Independent Third Party
"Listing"	the listing of the Shares on the Main Board
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	the date on which dealings in the Shares first commence on the Main Board, which is expected to be on or around Friday, 3 June 2011
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Macau"	the Macau Special Administrative Region of the PRC

"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"MEP"	the Ministry of Environmental Protection of the PRC
"Midea"	廣東美的製冷設備有限公司 (Guangdong Midea Refrigeration Facilities Company Limited*), a sino-foreign joint venture enterprise established in the PRC with limited liability, being an Independent Third Party
"MOFCOM"	the Ministry of Commerce of the PRC
"Mr. Hu Hanchao"	Mr. Hu Hanchao (胡漢朝), an executive Director
"Mr. Hu Hancheng"	Mr. Hu Hancheng (胡漢程), an executive Director
"Mr. Hu Hanxiang"	Mr. Hu Hanxiang (胡漢祥), a non-executive Director
"Mr. Hu Zheng"	Mr. Hu Zheng (胡正), our chairman and an executive Director
"MW"	megawatt, a unit of power. The installed capacity of power plants is generally expressed in MW
"NDRC"	the National Development and Reform Commission of the PRC
"New Shares"	the 125,000,000 new Shares initially being offered at the Offer Price by our Company under the Global Offering and, where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
"Offer Price"	the offer price for each Offer Share (excluding the Stock Exchange trading fee of 0.005%, the SFC transaction levy of 0.003% and 1% of the related brokerage), which is HK$1.43.
"Offer Shares"	the International Placing Shares and Hong Kong Public Offer Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option
"OPSL"	Oriental Patron Securities Limited, a corporation licensed under the SFO permitted to conduct type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities (as defined in the SFO), acting as one of the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers of the Global Offering
"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters, exercisable by OPSL (for itself and on behalf of the International Underwriters), at any time from the Listing Date up to (and including) the 30th day after the last day for lodging of the Application Forms, to require the Company to allot and issue up to an additional 18,750,000 new Shares at the Offer Price to cover over-allocations in the International Placing and/or the obligations of OPSL to return securities borrowed under the Stock Borrowing Agreement

"Packaging Report"	《2010年中國瓦楞紙箱包裝行業分析發展研究報告》 (Research Report on the Development of China's Corrugated Carton Packaging Industry 2010*) issued by Shangpu in August 2010
"Panasonic"	廣州松下空調器有限公司 (Guangzhou Panasonic Air-Conditioner Company Limited*), a sino-foreign joint venture enterprise established in the PRC with limited liability, being an Independent Third Party
"PRC" or "China"	the People's Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, particulars of which are set forth under the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to this prospectus
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rural Appliance Rebate Program"	家電下鄉 (Household Appliances to Rural Areas*), a program launched by the Ministry of Finance and MOFCOM in December 2007 pursuant to 商務部財政部關於印發《家電下鄉試點工作實施方案》的通知 (商綜發[2007]472號) (The Notice on Pilot Scheme for Household Appliances to Rural Areas jointly issued by the Ministry of Finance and MOFCOM (No. 472 of 2007 of MOFCOM)*), aiming at boosting rural consumption and supplying the rural market with reliable and affordable household appliances and consumer electronics. The program initially covered Henan Province, Shandong Province and Sichuan Provinces, and then was expanded to nationwide in February 2009. The program is set to expire on 30 November 2012
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
"SEPA"	the State Environmental Protection Administration (國家環境保護總局), the former body of MEP
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Shangpu"	Beijing Shangpu Information Consulting Company Limited, a research, consulting and systems integration institution addressing diversified information needs of governmental and commercial clients
"Share(s)"	the ordinary share(s) with a nominal value of HK$0.10 each in the capital of our Company

"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 19 May 2011, the principal terms of which are set forth under the paragraph headed "Other information — 15. Share Option Scheme" in Appendix V to this prospectus
"Shareholder(s)"	holder(s) of our Shares
"Shing Yip (Hong Kong)"	Shing Yip (Hong Kong) Investment Enterprises Limited (誠業(香港)投資實業有限公司) (formerly known as KWONG DAT (HONG KONG) INVESTMENT ENTERPRISES LIMITED (光達(香港)投資實業有限公司) prior to 12 July 2005), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of our Company
"sq.m." or "m^2"	square meter(s)
"State Council"	the State Council of the PRC
"Stock Borrowing Agreement"	a stock borrowing agreement expected to be entered into between OPSL and Hu Zheng Investment on or before 2 June 2011
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Synovate Report"	a report in respect of, among others, the packaging product manufacturing in China issued by a business consulting unit of Synovate Limited dated 2 February 2011 and commissioned by us
"TCL"	TCL Corporation (TCL 集團), a company incorporated in the PRC with limited liability, the shares of which are listed on the Shenzhen Stock Exchange (Stock Code: 000100:CH), and its subsidiaries, being Independent Third Parties
"tonne"	a metric unit of weight, with 1 tonne = 1,000 kilograms
"Track Record Period"	the three financial years ended 31 December 2010
"Umpaper"	Shanghai Leadway E-Commerce Company Limited, a market intelligence service provider in pulp and paper industry, specialised in providing various kinds of services in China pulp and paper market, including news and prices, market data, forecast and analysis
"Underwriters"	the International Underwriters and the Hong Kong Underwriters
"Underwriting Agreements"	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
"US" or "United States"	United States of America
"US$" or "US dollars" or "USD"	United States dollars, the lawful currency of the United States of America

"Wind"	Shanghai Wind Information Company Limited, a service provider of financial data, information and software headquartered in the PRC
"World Scrap"	World Scrap Company Limited, an information service provider offering scrap recycling information, market price and real time supply and demand information for scrap buyers and sellers
"Yong Fa Paper"	中山永發紙業有限公司 (Zhongshan Yong Fa Paper Industry Company Limited*), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zheng Ye (BVI)"	TYAZ International Limited, a company incorporated in BVI with limited liability on 5 July 2010 and a direct wholly-owned subsidiary of our Company
"Zheng Ye Alliance Packaging"	中山正業聯合包裝有限公司 (Zhongshan Zheng Ye Alliance Packaging Company Limited*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zheng Ye Group"	中山市正業(集團)有限公司 (Zhongshan City Zheng Ye (Group) Company Limited*) (formerly known as 中山市正業包裝有限公司 (Zhongshan City Zheng Ye Packaging Company Limited*)), a limited company established in the PRC and owned as to 51%, 25%, 20% and 4% by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, respectively
"Zheng Ye International"	Zheng Ye International Company Limited (正業國際有限公司) (formerly known as ZHENG YE INDUSTRIAL (H.K.) COMPANY LIMITED (正業實業(香港)有限公司) prior to 22 June 2007), a limited liability company incorporated in Hong Kong and an indirect wholly-owned subsidiary of our Company
"Zheng Ye Packaging (He Fei)"	合肥市正業包裝有限公司 (He Fei City Zheng Ye Packaging Company Limited*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zheng Ye Packaging (Zheng Zhou)"	鄭州正業包裝有限公司 (Zheng Zhou Zheng Ye Packaging Company Limited*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zheng Ye Packaging (Zhongshan)"	正業包裝(中山)有限公司 (Zheng Ye Packaging (Zhongshan) Company Limited*) (formerly known as 正業實業(中山)有限公司 (Zheng Ye Shi Ye (Zhongshan) Company Limited*)), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zheng Ye Packaging (Zhuhai)"	珠海正業包裝有限公司 (Zhuhai Zheng Ye Packaging Company Limited*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company

"Zhong Fa Equipment"	中山市中發設備租賃有限公司 (Zhongshan City Zhong Fa Equipment Rental Company Limited*) (formerly known as 中山市中發紙業有限公司 (Zhongshan City Zhong Fa Paper Company Limited*)), a limited liability company established in the PRC and owned as to 80% and 20% by Zheng Ye Group and Mr. Hu Hanchao, respectively
"Zhong Tang Recycling"	中山市中糖廢紙回收有限公司 (Zhongshan City Zhong Tang Waste Paper Recycling Company Limited*), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of our Company
"Zhong Tang Shi Ye"	中山市正業中糖實業有限公司 (Zhongshan City Zheng Ye Zhong Tang Shi Ye Company Limited*), a limited liability company established in the PRC and was an indirect wholly-owned subsidiary of our Company immediately prior to its de-registration on 28 October 2010 following its merger by absorption by Yong Fa Paper, was accounted for as a subsidiary of our Group during the Track Record Period
"Zhongshan Bureau of Foreign Trade and Economic Cooperation"	中山市對外貿易經濟合作局 (Zhongshan Bureau of Foreign Trade and Economic Cooperation*)
"%"	per cent.

The English names of the PRC entities, PRC laws or regulations or the PRC government authorities mentioned in this prospectus and marked with "" are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

Unless the context requires otherwise, translation of US$ into HK$ and HK$ into RMB is made in this prospectus, for illustration purpose only, at the rates of US$1.00 = HK$7.79 and HK$1.00 = RMB0.84.

No representation is made that any amount in US$, HK$ or RMB could have been or could be converted at the above rate or at any other rate or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

This glossary contains explanations of certain terms used in this prospectus in connection with the business of our Group. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.

"corrugated carton"	a box made from corrugated paperboard after die-cutting which is mainly used for storing goods. Cartons are usually made from single-wall and double-wall corrugated paperboard
"corrugated medium"	paper used to form the corrugated or fluted component sandwiched between the outer and inner facings of corrugated board for packaging purpose
"corrugated paperboard"	paperboard formed by adhering corrugated medium to one or more layers of the outer and inner facings of corrugated board. Corrugated paperboard may be classified according to the number of ply of corrugated medium paper
"corrugation" or "flute"	the wave shapes or ridges that are pressed into the corrugating medium
"corrugator"	an automated production line comprising machinery which presses corrugations into the paperboard to form corrugated paperboard
"die-cutting"	the process of cutting material to a specific design or shape
"double-wall corrugated board"	corrugated board which consists of two plies of corrugated medium which are glued together by one ply of unfluted paper or cardboard and the exposed outer surfaces of which are each covered with one ply of liner
"flexographic printing"	the most commonly used printing technique on packaging materials and this technique involves the use of a hard cylinder to dispose of a measured amount of ink upon the surface of the flexible printing plate which will then be transferred on the printing surface
"honeycomb paper-based products"	honeycomb is made by joining individual bands of kraft paper together into a series of continuous hexagonal cells. The main types of honeycomb paper-based products manufactured by our Group include honeycomb paper-made pallets, honeycomb cardboards and paper edge boards
"ISO"	the acronym for International Organisation for Standardisation, a worldwide federation of national standards bodies, whose mission is to develop industrial standards that facilitate international trade
"ISO 9001"	the requirements specified by the ISO for a quality management system where an organisation needs to demonstrate its ability to consistently provide product that meets customer and applicable regulatory requirements, and aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable regulatory requirements

"ISO 14001"	the requirements specified by the ISO for an environmental management system to enable an organisation to develop and implement a policy and objectives which take into account legal requirements and other requirements to which the organization subscribes, and information about significant environmental aspects
"kraftlinerboard"	a high grade linerboard manufactured wholly or partially by kraft pulp
"low quantum"	is the minimum amount of any physical entity involved, but in the context of describing corrugated medium paper in this prospectus, means corrugated medium of 100 g/m^2 or below
"offset printing"	a printing technique based on the non-repulsion of oil and water, through which images and texts are transferred from a plate to a rubber blanket and then to the printing surface
"pallet"	a large tray or platform for carrying goods which are being lifted or placed in storage, especially one that can be raised by a fork-lift truck
"SA8000"	an international certification standard that encourages organisations to develop, maintain and apply socially acceptable practices in the workplace
"single-wall corrugated board"	corrugated board which consists of one ply of corrugated medium which is glued between two plies of liner
"white goods"	commonly known name for household appliances

This prospectus contains forward-looking statements that are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plans of operation;
- our capital expenditure plans;
- the amount and nature of, potential for, and future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under planning;
- the regulatory environment of our industry in general; and
- future development in our industry.

The words "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our Group's present and future business strategies and the environment in which our Group will operate in the future, involving known and unknown risks, uncertainties and other factors including the risk factors described in this prospectus, and such statements only reflect our current views with respect to future events which do not guarantee the future performance. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. The actual results, performance or achievements of our Group, or industry results may be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause our Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the loss of key personnel of our Group, changes relating to the paper-based packaging and corrugated medium paper industries and changes in general economic and business conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in the section headed "Risk factors". Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

In this prospectus, unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the Latest Practicable Date. Any such intentions may change in light of future developments.

Prospective investors should, before making any investment decision in relation to the Offer Shares, consider all the information set forth in this prospectus carefully and, in particular, consider the following risks and special considerations in connection with an investment in our Company. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also be detrimental to our Group and may affect your investment.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. The actual results our Group obtained could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks and you may be deprived of all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Changes in revenue mix and major cost components may impact our Group's operations and financial performance.

Our growing emphasis on promoting paper-based packaging products has brought a number of new challenges and risks in our operation. We purchase raw paper from third parties for our production of paper-based packaging products. The total purchase of raw paper amounted to approximately RMB178.6 million, RMB150.1 million and RMB244.8 million, respectively, which accounted for approximately 32.4%, 34.4% and 36.7%, respectively of our total cost of raw materials for the three years ended 31 December 2010. As these purchases comprise a substantial portion of the production costs of our paper-based packaging products, any increase in the cost of raw paper will have a negative impact on our results of operations and prospects.

Furthermore, we granted to our paper-based packaging products customers 30 to 120 days of credit period, as opposed to 30 to 75 days that we granted to our corrugated medium paper customers, following the date of delivery of our products. With the rising portion of revenue generated from our paper-based packaging products, the longer credit period we offered to those customers will likely to have an adverse impact on our working capital position.

Also, as our Group has plans to establish new production plants for our paper-based packaging products in Zhengzhou, Henan Province and Hefei, Anhui Province the PRC, we would face further challenges as we would need to source raw materials from new suppliers around the regions, at least at the initial stage. While we have internal procedures to ensure the reliability of our suppliers, the quality and stability of raw materials to be supplied by these new suppliers could not be guaranteed.

In addition, to cater for the needs of our paper-based packaging products customers, we started the production of honeycomb paper-based products in December 2010. Although we purchased honeycomb paperboard from third parties for further processing and sold the processed honeycomb paper-based products to third parties for the year ended 31 December 2010, such sales only accounted for approximately 1.0% of our total sales for such period. Due to the short operating history of our production of honeycomb paper-based products, we could not guarantee that such new ancillary products lines will succeed in the future.

Changes in prices for and availability of our raw materials and energy resources may have a material and adverse impact on our business.

We consume a large amount of waste paper as the principal raw materials in our paper production. We also purchase raw paper for the production of our paper-based packaging products, and consume energy resources such as coal and electricity to support our production. During the Track Record Period, the average purchase cost of waste paper per tonne amounted to approximately RMB1,258, RMB831 and RMB1,274, respectively, and the total cost of waste paper accounted for approximately 58.0%, 53.0% and 55.7%, respectively of our total cost of raw materials used during the Track Record Period. During the Track Record Period, the average purchase cost of raw paper per tonne amounted to approximately RMB3,687, RMB3,025 and RMB3,848, respectively. It accounted for approximately 32.4%, 34.4% and 36.7%, respectively of our total cost of raw materials used for the Track Record Period. In addition, during the Track Record Period, energy cost accounted for approximately 13.6%, 14.1% and 11.7% of our total cost of sales respectively. Our success greatly depends on our capability to source from our suppliers adequate quantities of raw materials and energy supplies at satisfactory prices and quality in a timely manner. Any disruption in the supply or increase in price of raw materials or energy could adversely affect our business and results of operations.

As waste paper and raw paper procurement costs comprise a substantial portion of our Group's costs of sales, any increase in the cost of waste paper and raw paper will have a negative impact on our Group's results of operations and prospects. For the analysis regarding our Group's sensitivity to a 5% increase in the purchase costs for raw paper and waste paper, please refer to the paragraph headed "Financial information — Major factors affecting our Group's results of operations and financial conditions — Raw materials costs" in this prospectus.

We had net current liabilities as at 31 December 2008 and 31 December 2010.

We had net current liabilities of approximately RMB4.3 million as at 31 December 2008, which was mainly due to our current liabilities outweighed our current assets. Our current liabilities mainly included the short-term bank and other borrowings while our current assets mainly included trade and bill receivables. Such position was primarily driven by: (i) the increase in short-term bank loans to support our capital expenditure on the increased production capacity in 2008.

We had net current liabilities of approximately RMB51.6 million as at 31 December 2010. Our net current liabilities position was principally attributed to the utilisation of short-term bank and other borrowings from licensed banks in the PRC to support our capital expenditure in 2010 for the addition and enhancement of production facilities in the amount of approximately RMB81.9 million in total, to cope with the increasing demand of our paper-based packaging products. The borrowings were also used to finance our unsettled trade and other payables as at 31 December 2010.

As we may continue utilising short-term banking facilities from licensed banks in the PRC to fund our operations and business expansion, if there is any failure to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will continue to record net current liabilities. For further details of our Group in this respect, please refer to the section headed "Financial information" in this prospectus.

We rely on the PRC market.

During the Track Record Period, all of our products were sold to customers in the PRC. In the foreseeable future, we expect that the PRC market will continue to be our principal market. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and our Group is unable to divert sales to other markets outside of the PRC or the demand for our products does not grow at a rate we expect or at all, our sales, profitability and prospects may be adversely affected.

We derive a significant portion of our total revenue from a few customers.

Our ability to maintain close and mutually beneficial relationships with our customers is important to our ongoing growth and profitability. Although our Group's sales to specific customers vary from year to year and our customer base is diverse and broad, we derive a significant portion of our total revenue from a few major customers. During the Track Record Period, our five largest customers accounted for approximately 31.1%, 40.6% and 44.8%, respectively, of our revenue of the corresponding period. During the Track Record Period, our largest customer accounted for approximately 12.3%, 14.3% and 19.3% of our revenue of the corresponding period respectively.

As we do not normally enter into long-term sales contracts with our customers, there is no assurance that any of our major customers will continue to purchase products from us at the same level, or at all, as they have done so historically. Should any of our major customers materially reduce their purchases from us or terminate their business relationships with us, our business and financial performance may be adversely affected.

We are exposed to payment delays and/or defaults by our customers.

We generally offer our paper-based packaging products customers and corrugated medium paper customers credit periods of 30 to 120 days and 30 to 75 days, respectively following the date of delivery of our products, with the exception of new customers or those without an established or a proven credit history. There is no assurance that our customers will meet their payment obligations on time or in full or that our average trade receivables turnover days will not increase. Any failure on the part of our customers to settle or settle on time the amounts due to us may adversely affect our financial performance and operating cash flows, which could have a material adverse effect on our business and results of operations. Our Group's trade receivables amounted to approximately RMB156.4 million, RMB199.9 million and RMB289.6 million as at 31 December 2008, 2009 and 2010, respectively. There is no assurance that we can collect any or all of the debts successfully. During the Track Record Period, we have made provisions for bad debts for RMB0.2 million, RMB1.0 million and nil as at 31 December 2008, 2009 and 2010, respectively. Up to the Latest Practicable Date, we have written off doubtful debts of approximately RMB1.0 million due to the default of a customer of Yong Fa Paper in December 2010.

Sale of our products is subject to fluctuations in our customers' business cycles and the PRC and global economic conditions.

Sale of our products is subject to fluctuations in our customers' business cycles. As the quantity and product mix ordered by our customers may vary from period to period, it may be difficult for us to anticipate customers' demand correctly. Further, as our products mainly serve the manufacturers in the PRC, who would ship their goods within and outside the PRC, our customers' demand for our products during a global economic downturn could decrease. Due to the global financial crisis in the fourth quarter of 2008, our business was adversely affected and our revenue decreased from

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

In addition, our Group's gross profit margin for corrugated medium paper was relatively low, of approximately 7.4% for the year ended 31 December 2008 as compared to that for the year ended 31 December 2009. It was mainly attributable to the increase in purchasing cost of waste paper during the first half of 2008, and higher utilities cost in 2008. During the same period, the average selling price of our corrugated medium paper were approximately RMB2,626 in 2008 and RMB1,939 in 2009. Since the average cost of waste paper and utilities cost were higher than the average selling price of corrugated medium paper, our Group gross profit margin was relatively low. For details of the gross profit margin, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Gross profit and gross profit margin" in this prospectus. Should there be deterioration of the global economy in the future which impacts our customers' business cycles, our business may be adversely affected.

We rely on the expertise and experience of our executive Directors and senior management, and we may be unable to successfully recruit, train and retain our management and other highly skilled personnel.

Our ability to effectively implement our business plans and maintain continuous growth is dependent on the persistent and committed services of our executive Directors and senior management members. For details of credentials and experience of our executive Directors and senior management, please refer to the section headed "Directors, management and staff" in this prospectus. If any of our executive Directors or senior management members ceases to work for our Company, we may be unable to recruit and retain personnel with equivalent or comparable credentials in a timely manner. This may negatively affect the day-to-day management and development of our business. In addition, if any member of our senior management were to join a competitor or form a competing company, there is a possibility that we may lose some of our customers and know-how. The departure of one or more of our executive Directors or senior management may thus have a significant impact on the effective management of our business operations and adversely affect our operations.

Our smooth daily operations also depend on our ability to attract and retain management and technical personnel who possess the essential experience and expertise with respect to the papermaking and packaging business for our continuous growth and future success. If we fail to recruit the personnel with the relevant experience at a reasonable cost or at all, it may negatively affect our operations.

A material disruption to our operations may adversely affect our revenue and profits.

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions, which could prevent us from meeting customer orders, increase our costs of production and consequently adversely affect our revenue and profits. In particular, our operations require complex production facilities and specialised manufacturing equipment. Our production facilities require periodic shutdowns for regular maintenance, repair and mould and tooling changes to accommodate different specification of our products as required. Events such as industrial accidents, fires, floods, droughts, natural disasters, war and other catastrophes, equipment failures or other operational problems that increase our equipment downtimes, strikes or other labor difficulties and disruptions of public transportation infrastructure such as roads or ports may occur in our existing production lines housed in the factory premises at our principal production base in Zhongshan and Zhuhai, Guangdong Province, the PRC as well as our future production base in Hefei and Zhengzhou, the PRC or other areas. If any such events happen, our production may be materially disrupted, which may adversely affect our business and financial performance.

We may not be able to implement our future plans successfully.

We plan to expand our production capacity by establishing new production bases in Zhengzhou, Henan Province and Hefei, Anhui Province, the PRC. We also plan to upgrade our existing facilities for the production of corrugated medium paper and paper-based packaging products in order to seize the potential business opportunities in these areas. For details of our expansion plans, please refer to the sections headed "Business — Business strategies" and "Future plans and use of proceeds" in this prospectus. The successful implementation of such plans will depend on a number of factors that may be beyond our control, including but not limited to our ability to manage our expansion, our ability to achieve operational efficiency and any unforeseen difficulties which may arise in the relocation and setting up new production lines or the re-engineering and modification of our existing production facilities. Furthermore, we may need to relocate or establish a new production base if our major customers move into another area in the PRC. In light of this, we will incur additional start up costs and our cost of production may increase and thus adversely affect our profit margin in the short run.

Moreover, the implementation of our expansion plans is subject to other operational and market risks, including the inability to procure, or delays in receiving, the equipment and technology necessary for expansion, delays or complications in the design and roll-out of new technologies, or delays in obtaining or the inability to obtain government approvals or the requisite licenses. If we fail to effectively manage these risks, our ability to meet our expansion goals would be limited, and the implementation of such expansion plans may be delayed. Further, there may be an increase in costs, or an impediment with respect to our growth rate. Accordingly, our business operations and expansion plans could be materially and adversely affected, and we may not be able to sustain our historical rates of growth and maintain our position.

We relied on bank and other borrowings during the Track Record Period and may continue to depend on bank borrowings in the near future for our operations.

During the Track Record Period, our expansion in production capacity was principally financed by bank and other borrowings. As at 31 December 2008 and 2009 and 2010, our bank and other borrowings, which included both short-term and long-term borrowings, amounted to approximately RMB242.4 million, RMB261.9 million and RMB438.1 million, respectively. We expect to fund our business operations and capital expenditures through internally-generated cash flow as well as bank borrowings. There is no assurance that we will always be able to borrow from banks and other financial institutions to finance our business operations and capital expenditure. In the event that the banks and other financial institutions providing existing banking and credit facilities do not continue to extend similar or more favourable facilities to us and we fail to obtain alternative banking and credit facilities on comparable terms or at all, our business and financial positions will be adversely affected.

Our Group is exposed to interest rate risk in relation to variable-rate bank balances and short-term bank loans. For the sensitivity analysis regarding our Group's sensitivity to the interest rates on bank loans of 50 points higher, please refer to the paragraph headed "Financial information — Description of certain components of statements of comprehensive income — Finance costs".

We had net cash outflow used in operating activities for the year ended 31 December 2010.

We had net cash outflow of approximately RMB2.6 million for our operating activities for the year ended 31 December 2010, which was mainly due to a significant increase in trade and other receivables of approximately RMB207.7 million and partially offset by an increase in trade and other payables of approximately RMB112.8 million as at 31 December 2010, resulting from the significant increase in our sales in the year ended 31 December 2010 as compared to our sales for the year ended 31 December 2009.

Our business, financial position and development plans may be adversely affected if our Group does not generate sufficient cash flows from operations to meet our present and future financial obligations, or if we are unable to repay our loans and borrowings when they fall due. Adequate cash is expected to be required to fund the expansion of our operations. Hence, we may need to raise additional funds through debt or other forms of financing to finance our operations and/or to refinance our debts.

Our business operations may be affected by the interruption or shortage of supplies of water, electricity, steam and coal.

Steady supply of water, electricity, steam and coal play a critical role in our production processes. We rely partly on the local utility provider and partly on our heat and electricity co-generation plant for electric power and steam in Zhongshan, Guangdong Province, the PRC. In the event that the supply of water, electricity, steam or coal in Zhongshan and/or Zhuhai, Guangdong Province, the PRC, where our operations are based is interrupted, we may not be able to obtain alternative sources for these utilities at reasonable costs and in timely manner, or at all. As a result, our business operations may be adversely affected.

We rely on our major suppliers.

We are dependent on several major suppliers of raw materials such as raw paper and waste paper. Apart from Yong Fa Paper, we purchase our raw materials principally from Independent Third Parties. Our purchase from the top five suppliers accounted for approximately 40.6%, 52.5% and 49.8% of our total purchase for the three years ended 31 December 2010, respectively. If we cannot obtain an adequate supply of raw materials from these suppliers, we may be required to purchase from other more expensive sources. As we do not normally enter into long-term contracts with our suppliers, there is no assurance that we can obtain stable supply of raw materials or continue to maintain stable relationships with our suppliers in the future. Failure of our major suppliers to meet our demand or the loss of any of these key suppliers will disrupt our supply and have a material adverse impact on our business operations.

We may be subject to certain risks related to our business and operations that are not covered in whole or in part by our insurance policies.

We are subject to various risks associated with the operations of our business against which we cannot insure, or have not insured adequately or at all. We are not required by the laws of the PRC and have not maintained any product liability insurance coverage for products. Any liability and possible claims for product liability could affect our reputation and have a material and adverse effect on our business and results of operations.

Consistent with the customary practice in the PRC, we do not possess certain types of insurance in relation to our business operations, such as business interruption insurance, account receivable insurance, third party liability insurance for personal injury, and environmental damage. Should any accidents, natural disasters or similar events cause significant property damage or personal injury to our production facilities or employees, our business may be adversely affected, and a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss may also be resulted which might cause an adverse impact on our business and results of operations.

We may not be able to effectively protect our intellectual property rights and industrial know-how, and we may be involved in costly or unsuccessful intellectual property disputes.

Our ability to compete with other industry players relies on our possession of or our exclusive right to use certain intellectual property rights, technology and know-how. It is possible that our competitors may gain access to our technology and know-how if we fail to effectively protect our intellectual property rights and industrial know-how. We are in the process of applying for registration for some of our intellectual property rights. We cannot assure that the relevant approval bodies will grant our intellectual property applications or confirm the scope of the granted intellectual property rights that we have applied for.

Unexpected costs and resources may be incurred when monitoring unauthorised use of our intellectual property, and we cannot assure you that applicable laws can fully protect our proprietary rights and the steps we have taken will prevent unauthorised use of our technology and confidential information. Moreover, any significant infringement by other parties of any intellectual property which we have exclusive right to use in our business during the term of the exclusive right could lower our competitive position and have an adverse effect on our operations.

In addition, as we expand our business and increase our market coverage, we may assert claims against, or claims may be brought against us by, other parties arising from intellectual property rights disputes. Also, third parties may allege that our technology or products have violated their intellectual property rights. Resolution of claims may require us to redesign our technology, to obtain licenses to use intellectual property belonging to third parties, which we may not be able to obtain on reasonable terms, or at all, or to cease using the technology covered by those third party rights. If such claims cannot be resolved through negotiations, we may face legal proceedings which may be costly and time consuming, and thereby adversely affect our business and results of operations. Furthermore, if we are not successful in these proceedings, we could lose our proprietary rights to our intellectual property, which prevent us from operating our business in whole or in part. Any of these events could adversely affect our business and results of operations.

We face certain risks relating to the real properties we owned or leased.

We have failed to obtain the relevant planning permits, construction commencement permits for the construction projects and failed to submit the construction projects for quality check and acceptance procedures for 45 buildings and structures that are owned by us with a total gross floor area of approximately 42,066 sq.m. The said buildings have been used by us mainly for storage and other ancillary facilities which are not directly related nor critical to our production process and no revenue and profit contributions were generated from these properties during the Track Record Period. As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish these buildings. We could be liable to a fine of: (a) up to a maximum of 10% of the construction costs in respect of the buildings that we have failed to obtain the planning permits; (b) up to a maximum of 2% of the contractual price in respect of buildings that we have failed to obtain the commencement permits; and (c) up to a maximum of 4% of the contractual price in respect of buildings that we have failed to undertake the completion acceptance checks. In this connection, we have on 30 November 2010 undertaken to the relevant PRC authorities that we will demolish 26 buildings with a total gross floor area of approximately 17,105 sq.m. by 31 December 2012; for the remaining 19 buildings we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures. If we fail to obtain the planning permits, commencement permits or the planning and quality check and acceptance from the relevant PRC authorities for any of these 19 buildings, we will demolish such building by 31 December 2012. We received two confirmation letters issued by the competent authorities, Zhongshan City Huangpu Town Planning Management Centre (中山市黃圃鎮規劃管理所) and Zhongshan City Huangpu Town Construction Management Centre (中山市黃圃鎮建設管理所) dated 30 November 2010, confirming that no action will be instituted against us and no penalty will be imposed on us for the above irregularities subject to us fulfilling the aforesaid undertakings. We have further obtained a confirmation letter from 中山市城鄉規劃局 (Zhong Shan Shi Cheng Xiang Gui Hua Ju*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Planning Management Centre (中山市黃圃鎮規劃管理所) and a confirmation letter from 中山市住房和城鄉建設局 (Zhongshan City Housing and Urban and Rural Construction Bureau*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Construction Management Centre (中山市黃圃鎮建設管理所), both dated 14 February 2011.

We have failed to obtain the planning permit and submit the construction works for quality check and acceptance procedures for a canteen owned by Zheng Ye Packaging (Zhongshan), which is an ancillary facility and thus not crucial to our Group's production process and no revenue and profit contributions were generated from the said property during the Track Record Period. As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish our canteen and could be liable to a fine of up to a maximum of 10% of the construction costs of our canteen which amounted to RMB1,015. We may also be ordered to take remedial action for our failure to submit the construction work for quality check and acceptance procedure and be subject to a fine of up to a maximum of 4% of the contractual price for the construction of the canteen which amounted to RMB406 and to make compensation if damages are caused to other parties. We intend to demolish such canteen before June 2011.

In addition, we have failed to undertake the quality check and acceptance procedures for a building owned by Zheng Ye Packaging (Zhuhai) that is used as mailroom, an ancillary facility. It is not crucial to our Group's production process as no revenue and profit contributions were generated from it during the Track Record Period. We may be subject to a fine of up to a maximum of 4% of the contractual price which amounted to RMB5,153 and to make compensation if damages are caused to other parties. Zheng Ye Packaging (Zhuhai) has submitted such construction project for quality check and acceptance procedures and is yet to obtain the approval certificate from the competent authority. We expect to obtain such certificate by 30 May 2011.

As at the Latest Practicable Date, we leased eight properties and six leases of our leased properties have not been filed with the competent authorities mainly due to the failure of the lessors to provide us with the relevant ownership certificates. Properties being the subject of five leases for which we have not filed with the competent authorities are used as warehouse, canteen, workshop and office; whereas that relating to the remaining one is used as our production plant for our honeycomb paper-based products and its ancillary facilities. As advised by our legal advisers as to PRC law, although such lease agreements are enforceable and valid, we may be subject to a fine of RMB1,000 to RMB10,000 for our failure to file each of these lease agreements in accordance with 《商品房屋租賃管理辦法》(Commercial Property Leasing Management Regulation*) effective on 1 February 2011.

Three of our leased properties that we have not filed with the competent authorities were built on rural collectively-owned land for construction purpose. Two of such leased properties are mainly used as our warehouse and thus are not crucial to our Group; while the remaining one is used as our production plant for our honeycomb paper-based products and its ancillary facilities such as boiler room, security office and general office, in which we commenced operation in December 2010. The planned annual production capacity for honeycomb paper-based products is 10,000,000 sq.m, representing approximately 3.2% of the total capacity of the packaging division of our Group. Under the relevant PRC laws and regulations, the lease of land use rights of rural collectively-owned land has to be approved by two-thirds of the village committee members or of the village representatives. However as the respective lessor has failed to provide us with the satisfactory evidence showing such requisite approval, the relevant lease agreement may be void and not enforceable. Our Directors do not foresee any major difficulties in finding suitable alternative premises in Zhongshan Guangdong Province, the PRC, if we are required to evacuate the properties. The estimated amount of relocation costs and time for our two honeycomb paper-based products production lines are approximately RMB500,000 and 30 days, whereas the relocation costs for each of the remaining leased properties is estimated to be approximately RMB50,000. No revenue and profit contribution were generated from the said properties during the Track Record Period.

Apart from the above, one of our lessors has not been granted the planning permit and construction commencement permit for two buildings we lease as workshop and canteen, respectively, as a result of which the relevant lease may be void and unenforceable. No revenue and profit contribution were generated from the said properties during the Track Record Period.

In regard to these four leased properties, we have obtained a confirmation from the respective lessor in which each lessor has undertaken to fully indemnify us for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period.

Furthermore, Zheng Ye Packaging (Zheng Zhou) has entered into a lease for an office premises. It is not crucial to our Group's production process as no revenue and profit contributions were generated from it as at the Latest Practicable Date. Zheng Ye Packaging (Zheng Zhou) could be subject to a maximum fine of RMB10,000 for the failure to file the lease contract with competent authorities under the PRC laws and regulations.

We cannot assure you that the relevant PRC authorities will not order the demolition of those properties we owned for the failure as mentioned above, or to vacate us from our leased premises if our lease agreement is declared void and unenforceable by the relevant PRC authorities, in which case we will need to relocate, but may not be able to successfully find alternative sites to locate our facilities on commercially reasonable terms, or at all. Our business operations, planned expansion and future growth may be adversely disrupted, and this could have a material adverse effect on our business and results of operations. The Controlling Shareholders have undertaken to indemnify our Group against any damages, losses or liabilities which are or will become payable by any members of our Group as a result of the above non-compliance by our Group in relation to our properties, which are owned by our Group and will not therefore be covered by the undertakings of indemnity by the lessors of our leased properties, particulars of which are set out under the paragraph headed "Other information — 16. Estate duty, tax and other indemnities" in Appendix V to this prospectus.

We have not effected registration with the relevant local housing provident fund management centers, maintained housing provident fund accounts in designated banks and made contributions towards payments of housing provident funds for our employees in the PRC prior to August 2010.

We did not register, open accounts or contribute towards payments of the housing provident funds as required by the PRC laws and regulation prior to August 2010. We have effected registration with the relevant local housing provident fund management centers and opened our housing provident fund accounts in designated banks in Zhongshan, Guangdong Province, the PRC, since August 2010 and Zhuhai, Guangdong Province, the PRC, since September 2010 and have been making contributions since then.

Each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, has confirmed with us in writing that we will not be held liable for our failure to comply with the relevant laws and regulations regarding the housing provident funds in the past. We are advised by our legal advisers as to PRC law that each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, is competent to issue the confirmations.

Despite obtaining the confirmations from the local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, we cannot rule out the possibility of the PRC government authorities of a higher level taking enforcement actions against us in the future. We are advised by our legal advisers as to PRC law that in the event of enforcement actions being taken against us, we could be demanded to effect payment of the outstanding contributions that we should have made within a specified time as may be imposed by the relevant PRC authorities and could be facing court proceedings for specific performance of such payment if we fail to comply with the demand. We estimate that the outstanding amount of housing provident fund contributions that should have been made if we were in strict compliance with the relevant PRC laws and regulations prior to the date(s) of the above registration of accounts with the relevant local housing provident fund management centers is approximately RMB9.4 million. If any enforcement actions are taken against us as aforesaid, our business and results of operations may be adversely affected. As at the Latest Practical Date, no enforcement actions were taken by the relevant PRC authorities against us for the non-compliance as above mentioned. Our Controlling Shareholders have agreed to indemnify us for all amounts payable in respect of the outstanding payments and for all fines, penalties, damages, losses and liabilities which are or may become payable by us as a result of the non-compliance as above mentioned.

We have delayed in undertaking the environmental impact evaluation procedures for our expanded production capacity.

Compliance with environmental regulations is of vital importance to our business since our production generates wastes, including wastewater, noise, gaseous and airborne emissions, which are subject to stringent environmental regulations. We have delayed in undertaking the environmental impact evaluation procedures for the expanded production capacity of Zheng Ye Packaging

(Zhongshan) but have now obtained the relevant certificates or approvals, including the waste discharge permit and environmental protection confirmation. Our legal advisers as to PRC law have advised that our Group will not be subjected to any penalties or fines in this regard.

We failed to obtain the licence for the supply and sale of electricity to third parties during the Track Record Period.

At the request of the local government for the general benefits of the community, we supplied electricity to third parties where it is not practicable for the licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by these licensed power grid suppliers. Zhong Tang Shi Ye (and after the merger by absorption, Yong Fa Paper) failed to obtain the licence for the supply and sale of electricity to third parties during the Track Record Period. As advised by our legal advisers as to PRC law, in the event that any enterprise that has not obtained an electric power business licence in accordance with applicable law engages in the provision of electricity business, the electric power regulatory body shall order the enterprise to make correction and confiscate earnings generated from such business, and may even concurrently impose a fine of not more than five times as much as such earnings. The maximum amount of the fines that may be imposed on our Group as a result of the non-compliance would be approximately RMB85.0 million. Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties and the regional power grid since 1 January 2011.

We may not be able to pay any dividends on our Shares.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. Our ability to pay dividends will therefore depend on our ability to generate sufficient distributable profits.

Our Group declared a dividend of approximately RMB6.1 million, RMB13.5 million and RMB84.5 million, respectively to its then shareholders in respect of the financial year ended 31 December 2008, 2009 and 2010, respectively. For details of our dividends policy, please refer to the section headed "Financial information — Dividend policy" in this prospectus.

We cannot assure that in the future we will pay dividends at a similar level to the past or at all, and potential investors should be aware that the amount of dividends we paid in the past should not be used as a reference or basis upon which future dividends are determined. The payment and the amount of any dividends will depend on various factors, including but not limited to, the cash flows and financial conditions of our Company, the calculation of distributable profit under PRC GAAP and our future prospects. In addition, to the extent profits are distributed as dividends, such portion of profits will not be available for investment in our operations, which may in turn limit our further development.

Therefore, declaration and/or payment of future dividends, if any, will be at the discretion of the Board and will depend on our future capital requirements, general financial conditions, legal and contractual restrictions and other factors as the Board may deem relevant.

We are exposed to the risk of foreign exchange fluctuations.

We purchase some of our raw materials in US dollars and Hong Kong dollars and receive part of our sales in Hong Kong dollars. As such, we are subject to transactional currency exposures. The value of RMB against other foreign currency is subject to changes in the PRC Government's policies and international and economic developments. In July 2005, the PRC Government abolished the fixed exchange rate system, in which RMB was pegged against US$, and adopted a managed floating exchange regime. Further, it has been suggested recently that foreign countries are putting more pressure on the PRC Government to adopt a more flexible currency system, which could lead to a further appreciation of RMB. RMB may be re-valued further against US$ or other currencies or may be permitted to enter into a full or limited free float, which may could affect the value of RMB against US$ or other currencies. Depreciation in the value of RMB may lead to an increase in the cost of our raw materials and increase our cost of production. It may also materially and adversely affect the value, our earnings and assets as well as our ability to fulfil any of our foreign currency denominated obligations.

For the three years ended 31 December 2010, our Group's sales denominated in HK dollars were approximately HK$95.9 million, HK$18.4 million and HK$2.4 million, respectively. Such sales in HK dollars accounted for approximately 10%, 2% and 0% for our total sales for the three years ended 31 December 2010, respectively. Our Group has also paid part of its purchase in HK dollars and US dollars. It has paid approximately HK$132.9 million, HK$84.8 million and HK$62.6 million for the three years ended 31 December 2010, respectively, accounting for approximately 22%, 16% and 8% of our total purchase costs for the same period. Our Group paid approximately US$3.7 million, US$2.9 million and US$13.4 million, respectively for the Track Record Period, accounting for approximately 5%, 4% and 13% of our total purchase costs for the same period.

The following sensitivity analysis adjusts the translation at each of the three years ended 31 December 2010 for 10% depreciation in RMB against each of the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. A positive (negative) number below indicates an increase (decrease) in profit for the year where RMB depreciates against the relevant foreign currencies. For a 10% appreciation of RMB against the relevant currencies, there would be an equal and opposite impact on the profit before tax for the year.

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB	*RMB*	*RMB*
Profit/(Loss)	(5,998,000)	(7,821,000)	(14,260,000)

RISKS RELATING TO THE INDUSTRY

The markets in which we operate are highly competitive.

We compete on the basis of our product quality, consistency, performance and price. If we are unable to control our costs in connection with our planned expansion or anticipate and respond to changing customer preferences, we may not be able to compete successfully. We cannot assure you that our competitors which are of larger sizes than us will not invest and successfully establish themselves as market leaders in the corrugated medium paper and paper-based packaging products segment. In addition, we cannot assure you that we will be able to compete effectively or gain market share in local markets where we are not currently a market leader or where we do not currently have an established presence. The inability to compete effectively in new local markets may adversely affect our expansion plans and future growth.

Under the PRC's foreign investment rules, foreign investment in paper manufacturing and paper-based packaging is permitted. A number of foreign companies have established paper manufacturing and paper-based packaging enterprises in the PRC, and we anticipate a growing number of foreign new entrants in the future, in which case we may face increasing competition from such enterprises. As these foreign companies may have greater access to financial resources, higher levels of vertical integration and longer operating histories, if we are unable to maintain our operating efficiency and economies of scale, we may not be able to compete successfully. Our failure to compete successfully against our competitors could have a material adverse effect on our business and results of operations.

Any employee injury claims or failure to comply with any present or future employee health and safety standards may materially and adversely affect our business, results of operations and financial conditions.

Since our Group's business involves the operation of heavy machinery, industrial accidents resulting in employee injuries or deaths may occur, and such potential industrial accidents may lead to significant property loss and personal harm. In such an event, our Group may be liable for loss of life and property, medical expenses, fines or penalties for violation of applicable PRC laws and regulations as well as subject to claims and lawsuits, business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures as a result of the accidents. Accordingly, our profitability, relations with customers, suppliers, employees and regulatory authorities may be adversely affected. We cannot assure you that any preventive measures we have taken or may take will be adequate to prevent any industrial accidents in the future.

Further, we are required to ensure safety throughout our business operations in order to comply with rigorous PRC safety standards and pass routine safety inspections. In the event of a PRC government determination that our operations or products fail to meet, or are in breach of, national or local standards for safety, we could be subject to substantial amount of fines or penalties or be required to invest additional capital to carry out necessary improvements to meet such standards, and accordingly our business, results of operations and financial conditions would be significantly and adversely affected and we may not be able to implement our expansion plans as proposed. Moreover, should our products lead to harm or injury as a result of the failure to satisfy the relevant safety standards in the PRC, or result in non-compliance with the labour laws of the PRC, we could be subject to additional fines, penalties and lawsuits, which could increase our costs significantly and could potentially harm our business reputation, resulting in consumers being less inclined to purchase our products and services, thereby materially and adversely affecting our profitability and results of operations.

Our business operations may be affected by current or future environmental regulations.

The PRC government has enacted various national and local environmental laws and regulations, such as 中華人民共和國環境保護法 (Environmental Protection Law of the People's Republic of China*), 中華人民共和國水污染防治法 (Law of the People's Republic of China on the Prevention and Control of Water Pollution*), 中華人民共和國固體廢物污染環境防治法 (Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*), 中華人民共和國環境影響評價法 (Law of the People's Republic of China on Environmental Impacts Appraisal*), and 中華人民共和國清潔生產促進法 (Law of the People's Republic of China on Promoting Cleaner Production*). These environmental laws and regulations impose rigorous standards on us regarding water discharge, airborne emissions, the use, handling, discharge and disposal of wastes, noise pollution, and remediation of environmental contamination. For details of how these laws and regulations affect our business, please refer to the section headed "Regulatory overview" of this prospectus.

In addition, environmental laws and regulations could become even more stringent in the future. Our operating expenses may increase if the standards for discharge, or interpretation or enforcement of such standards, become stricter. Moreover, we are liable for damages caused by pollutants generated during our production. We cannot assure you that we will at all times be in full compliance with all of the environmental laws and regulations that apply to our operations due to our negligence. Any failure, or any claim that we have failed, to comply with environmental laws and standards could cause delays in our production and capacity expansion, which may adversely affect our business and results of operations.

In view of the repercussion of the environmental protection rules and regulations, we incur costs on our facilities and equipment to ensure the compliance with the relevant rules and regulations. Approximately RMB6.9 million, RMB9.2 million and RMB13.0 million was incurred in this regard for the three years ended 31 December 2010 and the expected cost of compliance going forward is approximately RMB6.0 million per annum.

Any change in the PRC government's initiatives to encourage spending on household appliances could affect our results of operation.

The PRC government has implemented the Rural Appliance Rebate Program to boost rural consumption and to supply the rural market with reliable and affordable household appliances and consumer electronics since 2007. According to the statistics by MOFCOM, sales volume of household appliances under this program amounted to approximately 59.5 million units in the first ten months of 2010 with a total sales value of approximately RMB132.3 billion. For the figures in the first ten months of 2010, compared to the full year in 2009, such figures increased by approximately 90.6%. Apart from that, the PRC government has also implemented the Change of the Old for New Program in 2009. According to the Administration System of the Change of the Old for New Program, the accumulated sales volume and value of household appliances under such program was approximately 40.3 million units and RMB152.1 billion, respectively on 7 March 2011. Such programs have boosted the demand for household appliances, and have indirectly benefited our Group's operation. Approximately 68%, 69% and 80% of our revenue from the paper-based packaging product segment was derived from household appliances manufacturers for the three years ended 31 December 2010, respectively.

The Rural Appliance Rebate Program was planned to expire on 30 November 2012 and the Change of the Old for New Program is to expire on 31 December 2011. Upon the expiry of such programs and without the subsidies from the PRC government, the demand in household appliances within the PRC may decrease, which may also have an adverse impact on the demand of our Group's products accordingly.

Any change in PRC industrial policy could adversely affect our profitability and ability to implement our expansion plans.

With regard to the paper industry, the PRC government has implemented a policy to encourage the growth of larger enterprises by providing support, such as supply of materials and assistance with new product development, while restricting the establishment of smaller paper companies, in an effort to reduce pollution and save timber and energy. Any change in the PRC industrial policy could cause us to lose the governmental support we currently enjoy, which could lead to difficulty in adequately funding key projects or accessing the raw materials we need. Should this happen, our profitability and ability to expand our operation may be adversely affected.

The NDRC promulgated 造紙產業發展政策 (Paper Making Industry Development Policy*) (the "**Policy**") on 15 October 2007. The Policy provides that if an enterprise's production of a single type of paper product accounts for more than 35% of the domestic market share, filing for the approval of new construction projects related to that particular type of paper product shall be disallowed. Furthermore, it is stated that, for a paper company with a production capacity exceeding 20% of the total domestic market consumption volume, filing for the approval of new pulp and paper making projects shall be disallowed.

As at the Latest Practicable Date, we did not produce any single type of paper product (according to the classification in the Policy) that has a domestic market share exceeding 35% for any single type of paper product and we did not have an aggregate production capacity exceeding 20% of the total domestic market consumption volume. Therefore, we are not currently affected by the aforesaid provisions of the Policy. However, as our business and production capacity grows, we may become subject to the provisions described above and other restrictions contained in the Policy in the future. Should our market share and aggregate production capacity in the future require us to comply with the Policy and NDRC's standards, our business and results of operations may be adversely affected. The Policy may limit the growth of our Group in the future.

RISKS RELATING TO THE PRC

Changes in political or economic policies or a slowdown in the PRC economy may have an adverse impact on the demand for our paper products.

For each of the three years ended 31 December 2010, we generated all our revenue from sales of products in the PRC. We anticipate that revenues from sales of our products in the PRC will continue to represent a large proportion of our total revenue in the medium term as most of our customers are located in the PRC. As such, our results of operations and prospects are and will continue to be subject to economic, legal and political developments in the PRC to a significant extent. In the recent decade, the PRC government has implemented various measures in relation to the development of the paper industry, such as restructuring the fragmented paper industry and encouraging foreign investment, both of which have led to changes in market structure of the paper industry and paper prices. However, there is no assurance that policies and measures that were introduced and those that may be introduced by the PRC government in the future to benefit the PRC paper industry in general may not have a negative effect on us. Any adverse change in government policies that increases our cost of production could adversely affect our business and financial conditions.

In addition, although the PRC has gradually shifted from a planned economy toward a market-oriented economy, continued governmental control of the economy may adversely affect us. We cannot assure that the PRC government will not continue to pursue economic reforms. A number of policies and measures that could be taken by the PRC government to regulate the economy, including the introduction of measures to control inflation, deflation, or resulting in reduced growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, could materially and adversely affect our business, results of operations and financial conditions.

A change in the PRC tax policy could have an adverse effect on our tax liabilities.

Pursuant to 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC*) enacted on 16 March 2007 and 中華人民共和國企業所得稅法實施條例 (Implementation Regulations of Enterprise Income Tax Law of the PRC*) enacted on 6 December 2007 (collectively the "**Income Tax Law**"), both of which took effect on 1 January 2008, a uniform tax rate of 25% is adopted for all enterprises, including foreign-invested enterprises. The Income Tax Law has revoked many previous tax exemptions, reductions and preferential treatments which were applicable to foreign-invested enterprises. However, foreign-invested enterprises that were entitled to fixed-term preferential tax treatment before the enactment of the Income Tax Law shall continue to enjoy such preferential tax policies in the same manner and for the duration as specified in relevant tax laws. Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging have obtained approvals from the relevant PRC tax authorities to enjoy preferential tax treatment in accordance with such laws and regulations. The state taxation authority has confirmed that each of Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging is entitled to an exemption from enterprise income tax for a period of two years starting from 1 January 2008, and an enterprise income tax rate of 12.5% for a period of three years starting from 1 January 2010. Our tax liability will increase following the expiry of the above preferential tax treatment.

As at the Latest Practicable Date, Yong Fa Paper and Zheng Ye Packaging (Zhongshan) were regarded as high-technology enterprises in 2009 and they were eligible to a preferential income tax rate at 15% for 2009, 2010 and 2011. In addition, Zhong Tang Recycling was exempted from the value-added tax for its trading of waste and old materials for the year 2008, and subsequently it enjoyed 70% and 50% rebate, respectively, of the valued add-tax for the years 2009 and 2010. We cannot guarantee that the effective tax rate applicable to us will not increase and the favourable tax treatment available to us will continue in the future, in which case our tax liabilities will increase accordingly and may have an adverse effect on our cash flow and financial conditions.

We may not be entitled to the preferential tax treatment under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Tax Arrangement").

On 21 August 2006, Hong Kong and the PRC entered into the Tax Arrangement, which provides that the withholding tax rate for the dividends between Hong Kong resident enterprises and PRC resident enterprises is: (i) 5% of dividends in case that the enterprise of one side holds at least a 25% equity interest of the enterprise of the other side; or (ii) 10% of dividends in other cases. Pursuant to Circular of the State Administration of Taxation on Issues Relating to the Implementation of the Dividend Provisions in the Tax Treaties ("**Circular 81**"), the following requirements shall also be satisfied if the Hong Kong Shareholder is to be entitled to the preferential tax treatment under the Tax Arrangement: (1) it shall hold at least 25% equity interest and voting rights of the PRC resident enterprise; and (2) it shall hold at least 25% equity interest for at least 12 months prior to the receipt of the dividend. According to 非居民享受稅收協定待遇管理辦法(試行) (Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties*) (the "**Administrative Measures**") which came into force on 1 October 2009, where a non-resident enterprise (as defined under the PRC tax laws) receiving dividends from PRC resident enterprises wants to enjoy the favourable tax benefits under the tax treaties, it shall submit an application for approval to the competent tax authority. If the application for enjoying the favourable withholding tax under the Tax Arrangement is not approved, it may not enjoy the favourable withholding tax under the Tax Arrangement. Moreover, according to Circular 81, if the primary purpose of a transaction or an arrangement in relation to the reorganisation of PRC subsidiaries is deemed by the competent authorities to have been made for the purpose of enjoying favourable tax treatment, such favourable tax treatment may be adjusted by the competent authorities. As we may receive dividends from Zheng Ye Packaging (Zhuhai), Zheng Ye Packaging (Zhongshan), Yong Fa Paper, Zhong Tang Recycling, Zheng Ye Alliance Packaging, Zheng Ye Packaging (He Fei) and Zheng Ye Packaging (Zheng Zhou) through our Hong Kong subsidiaries, we cannot assure you that the Hong Kong subsidiaries can enjoy the favourable withholding tax rate of 5% as the reorganisation of the PRC subsidiaries may be deemed to have been made in order to enjoy favourable tax treatment. This may reduce the amount of our future distribution of profits to our Shareholders.

We may be deemed to be a PRC tax resident and we may be subject to PRC tax on our worldwide income.

Under the Income Tax Law, if a non PRC resident enterprise does not have any establishment in the PRC, or in case such non PRC resident enterprise has an establishment in the PRC, its income derived from the PRC is not related to its PRC establishment, its income derived from the PRC will be subject to a tax rate of 10%. However, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to an enterprise income tax at the rate of 25% on its worldwide income, excluding equity-investment income such as dividends and bonus between qualified PRC resident enterprises. The term "de facto management organisations" refers to entities exercising overall management and control over issues such as operations, personnel, finance and assets. Substantially all of our management team members are residing in the PRC. If most of them continue to reside in the PRC, there is no assurance that our offshore companies will not be deemed as PRC resident enterprises under the Income Tax Law and therefore be subject to the PRC enterprise income tax at a rate of 25% on our worldwide income.

Dividends payable by us to our foreign investor, gains on sale of our Shares and our transfer of equity interests in our PRC subsidiaries may become subject to withholding tax under PRC tax laws.

Under the Income Tax Law, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises", which do not have an establishment or institutions in the PRC, or with such establishment or institutions but the relevant dividend is not effectively connected with such establishment or institution, to the extent such dividends have their source within the PRC, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the investor resides which reduces or exempts the relevant tax.

Furthermore, 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》 (the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprise*) (Circular Guoshuihan [2009] No. 698) issued by 國家稅務總局 (the State Administration of Taxation*) on 10 December 2009 and have a retrospective effect as from 1 January 2008, provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (the "**Indirect Transfer**") located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%; or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days upon the conclusion of the equity transfer agreement. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterise the Indirect Transfer. As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》 (the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC

Resident Enterprise*) also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties and where the consideration is not based on arm's length principle, thus resulting in lower taxable income, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

If we are required to withhold PRC tax on dividends payable to our foreign Shareholders under the Income Tax Law, or if you are required to pay PRC tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected. Further, there is no assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries through our overseas holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and a withholding tax of 10% will not be imposed as a result thereof, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises.

PRC regulations concerning direct investment and loans by offshore holding companies to PRC entities may delay or restrict us from funding our PRC subsidiaries.

Any capital contribution or loans that we, as an offshore entity, make to our PRC subsidiaries including from the proceeds of the Global Offering, are subject to requirements under the PRC laws. Such requirements provide, among others, that any of our loans to our PRC subsidiaries cannot exceed the margin between the total amount of investment that our PRC subsidiaries are approved to make under relevant PRC laws and the registered capital of those PRC subsidiaries, and any such loans must be registered with the competent SAFE branches. In addition, MOFCOM or its local counterpart must approve our additional capital contributions to our PRC subsidiaries. There is no assurance that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be affected, which could adversely impact our PRC subsidiaries' liquidity and our overall business, results of operations and financial conditions.

Changes and uncertainties in the PRC legal system may have an adverse effect on our operations.

Unlike the adversarial legal system in Hong Kong, the PRC legal system is based on written statutes, and therefore prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, these commercial laws are not fully developed and are subject to change, making the interpretation and enforcement of such laws uncertain. These uncertainties limit the reliability of legal protections available to us, and may negatively affect our business and results of operations.

We cannot predict the effect of future developments in the PRC legal system, particularly with regard to property rights and intellectual property protection. Additionally, we may be required to obtain additional permits, authorisations and approvals for our existing business and future projects, which may affect our operations and future plans.

Changes in foreign exchange regulations may adversely affect our ability to pay dividends.

We receive all our revenue in RMB, which is currently not freely-convertible into other currencies. As a result, any restriction on currency exchange may limit the ability of our subsidiaries to use our revenue generated in RMB to pay dividends to us. Under existing foreign exchange regulations in the PRC, following completion of the Global Offering, our PRC subsidiaries may make payment of dividends without prior approval from SAFE by producing the following documents to the designated bank: (i) tax completion certificates and tax form; (ii) audit report in relation to profits or dividends; (iii) board resolution authorising distribution of profits or dividends; (iv) foreign exchange registration certificate; (v) capital contribution verification report; and (vi) any other documents that are required by SAFE. The PRC government has stated publicly that it intends to make RMB freely convertible in the future. However, uncertainty exists as to whether the PRC government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC, in which case our ability to pay dividends or satisfy other foreign exchange requirements may be adversely affected.

It may be difficult to effect service of process upon our Company or on our Directors who live in the PRC or to enforce judgments obtained from non-PRC courts against us.

Our operating subsidiaries are all incorporated in the PRC and all our assets are located within the PRC. It may not be possible for investors to effect service of process upon our operating subsidiaries within the PRC or to enforce any judgments obtained from non-PRC courts against any of such subsidiaries. The PRC does not have treaties or arrangements providing for the recognition or enforcement of civil judgments of the courts of Hong Kong (except pursuant to the arrangement between the Hong Kong government and the Supreme People' Court of the PRC as described in the following paragraph), the US or other western countries. Therefore, the recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult or even impossible. In addition, there are doubts as to the enforceability in original actions brought in the PRC of actions predicated on the laws of Hong Kong, the U.S. or most other western countries.

On 14 July 2006, the Hong Kong government and the Supreme People's Court of the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such arrangement, which became effective on 1 August 2008, a party with a final judgment with enforceable effort rendered by a designated Hong Kong court requiring payment of money in a civil and commercial case pursuant to a written choice-of-court agreement may apply to the relevant People's Court in the PRC for recognition and enforcement of the judgment in the PRC and vice versa. A choice of court agreement in writing is any written agreement entered into between the parties after the effective date of such arrangement under which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute concerned. However in the case where a choice-of-court agreement is in place, the outcome of any action taken under such arrangement may still be uncertain as the interpretation of relevant cases has not been fully developed.

The enforcement of the Labour Contract Law and other labour-related regulations in the PRC may adversely affect our business and our results of operations.

On 29 June 2007, the National People's Congress of the PRC enacted 中華人民共和國勞動合同法 (the PRC Labour Contract Law*) (the "**Labour Contract Law**"), which was implemented on 1 January 2008. Compared to 中華人民共和國勞動法 (Labour Law of the PRC*), the Labour Contract Law contains more restrictions and increases an employer's costs when reducing its workforce. The Labour Contract Law includes specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with labour unions and employee general assemblies, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labour Contract Law, where a labour contract has been renewed under circumstances that do not fall within those specified in the Labour Contract Law after the employer has concluded a labour contract for fixed term with such labour for two consecutive time, the labour contract then renewed shall be one with unfixed term. Either the employer or employee is entitled to terminate the labour contract in circumstances as prescribed in the Labour Contract Law or if certain preconditions is fulfilled, and in certain cases, the employer is required to pay a statutory severance upon the termination of the labour contracts pursuant to the standards stipulated in the labour contract law. Further, under 職工帶薪年休假條例 (Regulations on Paid Annual Leave for Employees*), which was implemented on 1 January 2008, employees who have served more than one year with an employer are entitled to paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation entitlement at the request of employers shall be compensated at three times of their normal salaries for each waived vacation day. As a result of these protective labour measures, our Group's historical labour costs may not be indicative of our labour costs going forward. Compliance with the relevant laws and regulations may substantially affect our operating costs and thus may have a material adverse effect on our results of operations.

Our operations could be materially and adversely affected by severe communicable diseases, acts of war, terrorism or other incidents which are beyond our control.

Our business is subject to outbreak of severe communicable diseases, such as swine flu, avian flu, severe acute respiratory syndrome, natural disasters or other acts of God which are beyond our control and which may adversely affect the economy, infrastructure, livelihood and society in China. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our production facilities, disrupt our distribution channels and destroy our markets, any or all of which could materially impact our revenue, costs, financial conditions and growth potentials. The potential for these incidents may also cause uncertainty leading to our business as well as those of our customers and suppliers to suffer in the ways that we cannot predict. Our business and operating results may materially and adversely be affected as a result.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares, and an active trading market may not develop.

There was no public market for the Shares prior to the Global Offering. You should not view the Offer Price as any indication of the price that will prevail in the trading market. The market price for the Shares may drop below the Offer Price upon commencement of dealing in Shares on the Main Board. In addition, a listing on the Stock Exchange does not guarantee that an active and liquid trading market for the Shares will develop or be sustained following the Global Offering or in the future.

The trading volume and market price of our Shares may be volatile.

The trading volume and market price of the Shares could be subject to significant volatility in response to, among other factors, (i) investors' perceptions of our Group and our future plans; (ii) variations in our Group's operating results; (iii) changes in pricing made by us or our competitors; (iv) technological innovations; (v) changes to senior management; (vi) the depth and liquidity of the market for the Shares; and (vii) general economic and other factors. Any material changes in the above factors could cause the market price of the Shares to change substantially.

Due to the time lag between pricing and trading of the Shares, there is a risk that the price of our Shares may fall before trading begins.

The Offer Price is HK$1.43. However, trading of the Shares on the Main Board will not commence until the Shares are delivered, which is expected to be on Friday, 3 June 2011. During this period, investors may not be able to sell or otherwise deal in the Shares. Accordingly, holders of the Shares are subject to the risk that the Shares' trading price could fall before trading begins resulting from adverse market conditions or other adverse developments that could occur between the time of the sale and the time trading begins.

Concentrated ownership and the Controlling Shareholders may exert substantial influence over us and may not act in the best interests of our independent Shareholders.

Immediately upon completion of the Global Offering, Hu Hanchao Investment, Hu Hancheng Investment, Hu Hanxiang Investment and Hu Zheng Investment (which are ultimately owned by the Hu Brothers) will collectively own 70% of our issued share capital, without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options that may be granted under the Share Option Scheme or upon the exercise of the Over-allotment Option. The Hu Brothers will then be in a position to exert significant influence over our affairs, and will be able to influence the outcome of any Shareholders' resolution, irrespective of how other Shareholders may vote. The interests of the Hu Brothers, as our Controlling Shareholders, may not necessarily be aligned with that of independent Shareholders, and this concentration on ownership may also have the effect of delaying, deferring or preventing a change in control of our Company.

Investors will experience immediate dilution and may experience further dilution in the value of their Shares.

Because the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible assets value to RMB0.84 or HK$1.00 per Share, based on the Offer Price of HK$1.43, assuming that the Over-allotment Option is not exercised. In addition, our Board approved our Share Option Scheme on 19 May 2011, particulars of which are summarised under the paragraph headed "Other information — 15. Share Option Scheme" in Appendix V to this prospectus. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme is 50,000,000 Shares, which represents approximately 10% of the total number of our enlarged share capital upon completion of the Global Offering, assuming the Over-allotment Option is not exercised. Any exercise of the options granted under the Share Option Scheme will result in a dilution in the earnings per Share and net asset value per Share.

There may be dilution of shareholding as a result of additional equity fund raising.

To finance the expansion of our new developments relating to our existing operations or new acquisition, we may need to raise additional funds in the future. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company in accordance with the Listing Rules but other than on a pro-rata basis to existing Shareholders, the percentage of ownership of our then Shareholders in our Company may be diluted, Shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to the Shares.

Statistics and industry information have come from various sources which may not be reliable.

Certain facts, statistics and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the global and PRC markets of the paper industries have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus, and we have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither our Group, our Directors, the Sole Sponsor nor any of the parties involved in the Global Offering have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside the PRC. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

There are risks associated with forward-looking statements contained in this prospectus.

Included in this prospectus are various forward-looking statements that are based on numerous assumption. For details of these statements including the associated risks, please refer to the section headed "Forward-looking statements" in this prospectus.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering.

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage, regarding us and the Global Offering, such as reference to our Group's plan in establishing business alignments with some IT manufacturers and we plan to focus on IT-related packaging business in the upcoming years. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this Prospectus and the Application Forms.

For the purpose of the Listing, the Company has sought the following waivers from the Listing Division of the Stock Exchange in relation to certain of the requirements of the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Background

It is required under Rule 8.12 of the Listing Rules that a new listing applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

As disclosed in this prospectus, our business, operation and production are primarily located, managed and conducted in the PRC and, as such, none of our executive Directors are Hong Kong residents nor ordinarily based in Hong Kong. As our executive Directors are, and will continue to be, based in the PRC, our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

In view of our business, management and operations in the PRC, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would increase our administrative expenses and reduce the effectiveness and responsiveness of our Board in making decisions for our Group, particularly when business decisions are required to be made on a timely basis. Furthermore, such additional executive Directors, not being able to be physically present at the place where our daily operations and management take place, may not be able to fully understand the daily operations of our business and management or appreciate the circumstances affecting our business operations and development from time to time. This may adversely affect these Directors' ability to exercise their discretion on a fully informed basis, or to make appropriate business decisions or judgments that are beneficial to the management, operation and development of our Group.

Similarly, if any of the existing PRC-based executive Directors are relocated to Hong Kong for the sole purpose of satisfying the requirement under Rule 8.12 of the Listing Rules, these Directors will no longer be physically present at the place where our daily operations and management take place and may encounter the management difficulties as mentioned above.

For reasons stated above, our Directors consider that appointment of additional executive Directors with ordinary residence in Hong Kong would be practically difficult and commercially infeasible for our Company and may not be in the best interests of our Group and its Shareholders as a whole.

Waiver sought

For the purpose of the Listing, an application has been submitted to the Stock Exchange and the Stock Exchange has granted a waiver from strict compliance with Rule 8.12 of the Listing Rules.

The following arrangements proposed by us for maintaining regular and effective communication with the Stock Exchange for the purpose of Rule 8.12 of the Listing Rules are as follows:

- We have appointed two authorised representatives ("**Authorised Representatives**") pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange, namely Mr. Hu Zheng, our executive Director and Mr. Lau Wang Lap, an ordinarily resident in Hong Kong and our company secretary.

- Each of our Authorised Representatives:

  — is authorised to communicate on our behalf with the Stock Exchange;

  — has provided the Stock Exchange with his contact details, including home and office telephone numbers and where available, facsimile number and email address, and will therefore be readily contactable by the Stock Exchange;

  — with regard to Mr. Hu Zheng who is not ordinarily resident in Hong Kong, is holding valid travel document enabling him to travel to Hong Kong within a reasonable time frame to meet with the Stock Exchange in Hong Kong upon request by the Stock Exchange; and

  — has appointed Mr. Hu Hancheng, our executive Director holding valid travel document enabling him to travel to Hong Kong from time to time, as his alternate whenever he is outside Hong Kong and has provided the Stock Exchange with the contact details of his alternate, including home and office telephone numbers and where available, facsimile number and email address, such that his alternate is readily contactable by the Stock Exchange.

- We will appoint CMBI as our compliance adviser ("**Compliance Adviser**") pursuant to Rule 3A.19 of the Listing Rules. The Compliance Adviser will, in addition to the Authorised Representatives, act as our additional channel of communication with the Stock Exchange in Hong Kong.

- Our Authorised Representatives and Compliance Adviser have full access to their respective contact details, including home and office telephone numbers and where available, facsimile number and email address, and the contact details of each Director and the alternate of our Authorised Representatives such that any one of them is readily contactable by the other whenever required.

- We have provided the Exchange with our Directors' contact details, including home and office telephone numbers and where available, facsimile number and email address.

- All our Directors who are not ordinarily residents in Hong Kong hold, or can apply as soon as possible, valid travel documents that will enable them to enter Hong Kong to meet with the Stock Exchange within a reasonable time frame.

WAIVER FROM STRICT COMPLIANCE WITH THE ANNOUNCEMENT REQUIREMENT AS APPLICABLE TO CERTAIN OF OUR CONTINUING CONNECTED TRANSACTIONS

Immediately upon the Listing, a number of our business transactions which we have carried on from time to time with certain counterparties will constitute our continuing connected transactions under the Listing Rules when these counterparties become, for the purpose of the Listing Rules, our connected persons immediately upon the Listing.

These transactions are subject to the reporting and announcement requirements as applicable to continuing connected transactions under Chapter 14A of the Listing Rules immediately upon the Listing.

We have pursuant to Rule 14A.42(3) sought a waiver from the Stock Exchange from strict compliance from the announcement requirement in respect of these continuing connected transactions immediately following the Listing and the Exchange had granted us the waiver sought with conditions imposed.

Detailed of these continuing connected transactions and other continuing connected transactions of us as well as the waiver sought and granted and the conditions imposed are set out in the section headed "Connected transactions" of this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (subsidiary legislation V of Chapter 571 of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. This prospectus, for which our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in this prospectus misleading.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. So far as the Global Offering is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors (where applicable) or any other parties involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offer. The Global Offering comprises the International Placing and the Hong Kong Public Offer subject, in each case, to adjustment described in the section headed "Structure and conditions of the Global Offering" in this prospectus. The number of the Offer Shares is subject to the Over-allotment Option.

The Listing is sponsored by the Sole Sponsor and the Global Offering is lead managed by the Joint Lead Managers. The Hong Kong Public Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Placing Shares are expected to be fully underwritten by the International Underwriters. For particulars of the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction outside Hong Kong or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offer will be required to confirm and is deemed by his/her/its acquisition of the Offer Shares to have confirmed that he/she/it is aware of the restrictions on offers of the Offer Shares described in this prospectus and the Application Forms and that he/she/it is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Global Offering as mentioned in this prospectus (including any Shares to be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme).

No part of the Shares or our Company's loan capital is listed or dealt in on any other stock exchanges. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by our branch share registrar and transfer office in Hong Kong.

Our Company's principal register of members will be maintained by our principal share registrar and transfer office in Bermuda.

Our Shares registered on our Hong Kong branch register of members constitute Hong Kong property. Dealings in the Shares registered on our Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in HK dollars in respect of the Shares will be paid to the Shareholders listed on our Company's branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Bye-Laws.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Further details of the structure and conditions of the Global Offering, including details of the Over-allotment Option, are set forth under the section headed "Structure and Conditions of the Global Offering" in this prospectus.

PROCEDURE FOR APPLICATION FOR THE HONG KONG PUBLIC OFFER SHARES

The procedure for applying for the Hong Kong Public Offer Shares is set forth in the section headed "How to apply for Hong Kong Public Offer Shares" in this prospectus and the Application Forms.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing the Offer Shares or holding, disposing of or dealing in the Offer Shares, you should consult an expert. Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or other parties involved in the Global Offering do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for or purchasing or holding or disposing of or dealing in the Offer Shares.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

DIRECTORS

Executive Directors

Name	Address	Nationality
Mr. Hu Zheng (胡正)	Room 202, Block 3, Junjing Garden East District, Zhongshan Guangdong Province, PRC	Chinese
Mr. Hu Hanchao (胡漢朝)	Room 703, Block 8, Shuiyunxuan Club No. 12 North Qiwan Road East District, Zhongshan Guangdong Province, PRC	Chinese
Mr. Hu Hancheng (胡漢程)	Room 703, Block 6, Shuiyunxuan Club East District, Zhongshan Guangdong Province, PRC	Chinese

Non-executive Director

Name	Address	Nationality
Mr. Hu Hanxiang (胡漢祥)	Room 702, No. 2 Zhuzi Back Street Panfu Road, Yuet Sau District Guangzhou City Guangdong Province, PRC	Chinese

Independent non-executive Directors

Name	Address	Nationality
Mr. Chung Kwok Mo John (鍾國武)	Flat F, 30th Floor, Block 4 Royal Peninsula, Hunghom Kowloon, Hong Kong	Chinese
Mr. Wu Youjun (吳友俊)	Room 2202, No. 297 Guangzhou Road Central Yuexiu District Guangzhou City Guangdong Province, PRC	Chinese
Mr. Zhu Hongwei (朱宏偉)	Room 1004 No. 24 Jingyue Street Haizhu District Guangzhou PRC	Chinese

Sole Sponsor	CMB International Capital Limited Units 1803–4, 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong
Joint Global Coordinators and Joint Bookrunners	Oriental Patron Securities Limited 27/F, Two Exchange Square 8 Connaught Place Central Hong Kong
	CMB International Capital Limited Units 1803–4, 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong
Joint Lead Managers	Oriental Patron Securities Limited 27/F, Two Exchange Square 8 Connaught Place Central Hong Kong
	CMB International Capital Limited Units 1803–4, 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong
	Cinda International Securities Limited 45/F Cosco Tower 183 Queen's Road Central Hong Kong

Co-Managers	SBI E2-Capital Financial Services Limited Unit A2, 32/F, United Centre 95 Queensway Hong Kong
	Guotai Junan Securities (Hong Kong) Limited 27/F, Low Block, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	Tung Shing Securities (Brokers) Limited 22/F China Overseas Building 139 Hennessy Road Wanchai Hong Kong
Legal advisers to the Company	*As to Hong Kong law* Chiu & Partners 40th Floor Jardine House 1 Connaught Place Hong Kong
	As to PRC law Jingtian & Gongcheng Level 34, Tower 3 China Central Palace 77 Jianguo Road Chaoyang District Beijing PRC
	As to Bermuda law Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong
Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law* Pang & Co. in association with Salans LLP Level 76, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong

	As to PRC law Beijing Kangda Law Firm 2301, CITIC Building No. 19 Jianguomenwai Street Beijing PRC
Auditors and reporting accountants	Deloitte Touche Tohmatsu Certified Public Accountants 35/F One Pacific Place 88 Queensway Hong Kong
Property valuer	CB Richard Ellis Limited 4/F Three Exchange Square 8 Connaught Place Central Hong Kong
Receiving bankers of the Hong Kong Public Offer	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong

Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Headquarters	No. 173, South Xinming Road Huangpu Zhongshan City Guangdong Province, PRC
Principal place of business in Hong Kong	Office Suite 1712 17th Floor Shui On Centre 6–8 Harbour Road Wanchai Hong Kong
Company's website address	www.zhengye-cn.com *(information on this website does not form part of this prospectus)*
Company Secretary	Mr. Lau Wang Lap, *CPA*
Audit committee	Mr. Chung Kwok Mo John *(Chairman)* Mr. Wu Youjun Mr. Zhu Hongwei
Remuneration committee	Mr. Chung Kwok Mo John *(Chairman)* Mr. Wu Youjun Mr. Zhu Hongwei Mr. Hu Zheng
Nomination committee	Mr. Hu Zheng *(Chairman)* Mr. Chung Kwok Mo John Mr. Wu Youjun Mr. Zhu Hongwei
Authorised representatives	Mr. Hu Zheng Room 202, Block 3, Junjing Garden East District, Zhongshan Guangdong Province, PRC Mr. Lau Wang Lap Flat E, 16/F, Tower 5 Sausalito 1 Yuk Tai Street Ma On Shan New Territories Hong Kong

	Mr. Hu Hancheng (alternate to Mr. Hu Zheng and Mr. Lau Wang Lap) Room 703, Block 6, Shuiyunxuan Club East District, Zhongshan Guangdong Province, PRC
Compliance adviser	CMB International Capital Limited Units 1803–4, 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong
Principal bankers	Bank of China (Zhongshan Branch) No. 18 Zhongshan Third Road Zhongshan City Guangdong Province PRC
	Industrial and Commercial Bank of China (Zhongshan Huangpu Sub-branch) No. 52 Xingpu Main Road Huangpu Town Zhongshan City Guangdong Province PRC
	Industrial Bank Company Limited (Zhongshan Branch) First Floor, Da Dong Yu Building Boai Fifth Road Zhongshan City Guangdong Province PRC
Principal share registrar and transfer office in Bermuda	Butterfield Fulcrum Group (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke HM 08 Bermuda
Branch share registrar and transfer office in Hong Kong	Tricor Investor Services Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

This section contains certain information which has been derived from official, market and other third party sources. Our Directors believe the sources of such information are appropriate sources for the information. Our Company has exercised reasonable care in selecting and identifying the named information sources and in compiling, extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, such facts and statistics have not been independently verified by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates, directors and advisers or any other parties involved in the Global Offering. None of them makes any representation as to the accuracy or completeness of such information which may not be consistent with other information available and may not be accurate and should not be unduly relied upon.

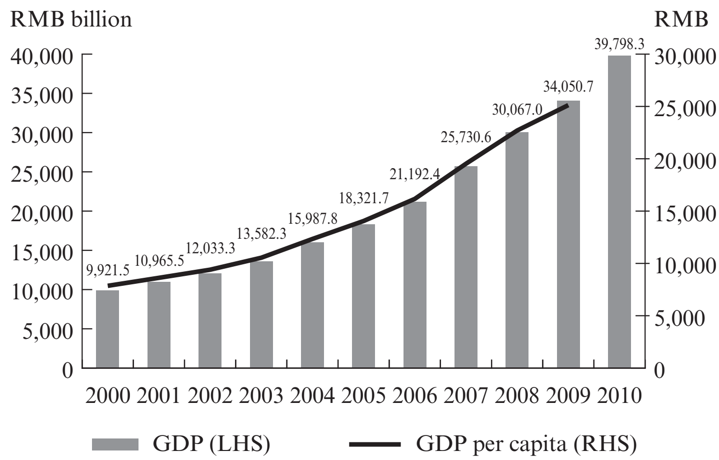
Certain information and statistics are extracted from the Packaging Report and the Honeycomb Report prepared by Shangpu and CENC, respectively. The information extracted from the Packaging Report and the Honeycomb Report reflects an estimate of market conditions based on research and analysis from Shangpu and CENC. The information extracted from the Packaging Report and the Honeycomb Report should not be viewed as a basis for investments provided by from Shangpu and CENC and references to the Packaging Report and the Honeycomb Report should not be considered as an opinion by Shangpu and CENC as to the value of any security or the advisability of investing in our Company. While reasonable care has been taken in the extraction, compilation and reproduction of such information and statistics by our Company, neither our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective affiliates, directors or advisers, nor any party involved in the Global Offering have independently verified such information and statistics directly or indirectly derived from official government publications, and such parties do not make any representation as to their accuracy. The information and statistics may not be consistent with other information and statistics compiled by other parties.

OVERVIEW OF THE ECONOMY IN THE PRC

Robust Economic Growth in the PRC

The PRC's economy has experienced a fast growing rate since its economic reform in 1978. According to statistics released by the National Bureau of Statistics of China, the GDP of the PRC grew steadily and significantly from approximately RMB9,921.5 billion in 2000 to approximately RMB39,798.3 billion in 2010, representing a CAGR of approximately 14.9% from 2000 to 2010. Despite the outbreak of the global financial crisis in the fourth quarter of 2008, the PRC economy was resilient and recorded robust growth following the timely implementation of a series of economic stimulus plans by the PRC government and its GDP maintained a growth of approximately 16.9% in 2010. The GDP per capita of the PRC for 2009 amounted to approximately RMB25,125, increased at a CAGR of approximately 13.8% from 2000 and increased by approximately 10.7% as compared to the previous year. Currently, our Group has its production bases in Guangdong Province and will set up its production bases in Henan Province and Anhui Province in the near future. According to the Statistics Bureau of Guangdong Province, the GDP of Guangdong Province reached approximately RMB3,679.7 billion, RMB3,948.3 billion and RMB4,547.3 billion respectively, for the three years ended 31 December 2010, representing approximately 12.2%, 11.6% and 11.4% respectively of the total national GDP. According to the Statistics Bureaux of Anhui Province and Henan Province, the GDP of Anhui Province reached approximately RMB885.2 billion, RMB1,006.3 billion and RMB1,226.3 billion respectively, for the three years ended 31 December 2010, representing approximately 2.9%, 3.0% and 3.1% respectively. The GDP of Henan Province amounted to approximately RMB1,840.8 billion, RMB1,936.7 billion and RMB2,294.3 billion for the three years ended 31 December 2010 respectively, representing approximately 6.1%, 5.7% and 5.8% respectively.

GDP and GDP per capita in the PRC 2000–2009



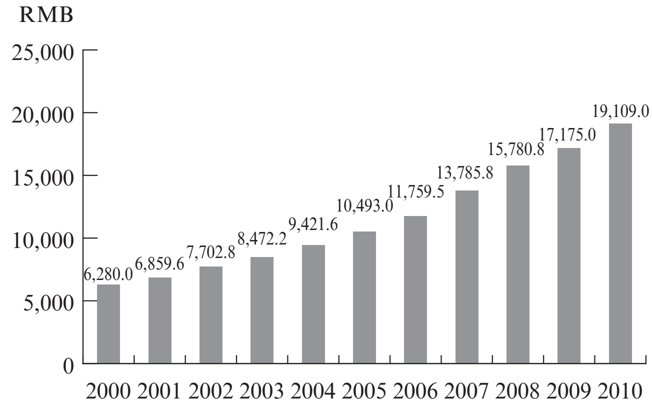
Source: National Bureau of Statistics of China

Note: As at the latest practicable date, the GDP per capita for 2010 is not available.

Growth of personal wealth fosters the purchasing power

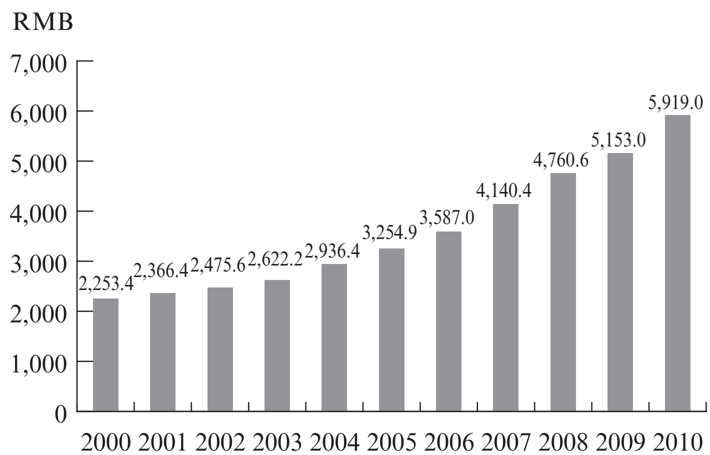
According to the National Bureau of Statistics of China, the annual disposable income per capita of urban households in the PRC increased at a CAGR of approximately 11.8% from 2000 to 2010 and increased by approximately 11.3% to RMB19,109.0 from 2009 to 2010 while the annual net income per capita of rural households in the PRC increased at a CAGR of approximately 10.1% from 2000 to 2010 and increased approximately 14.9% to RMB5,919.0 in 2010 as compared to the previous year. The growth in annual disposable income of urban households and annual net income of rural households in the PRC lead to an improvement in the purchasing power of people in the PRC. The demand for consumption is also expected to increase in view of the accelerating plan of urbanization in the PRC. The annual disposable income per capita of urban households and the annual net income per capita of rural households in the PRC from 2000 to 2010 are shown in the charts below.

Annual disposable income per capita of urban households in the PRC 2000–2010



Source: National Bureau of Statistics of China

Annual net income per capita of rural households in the PRC 2000–2010

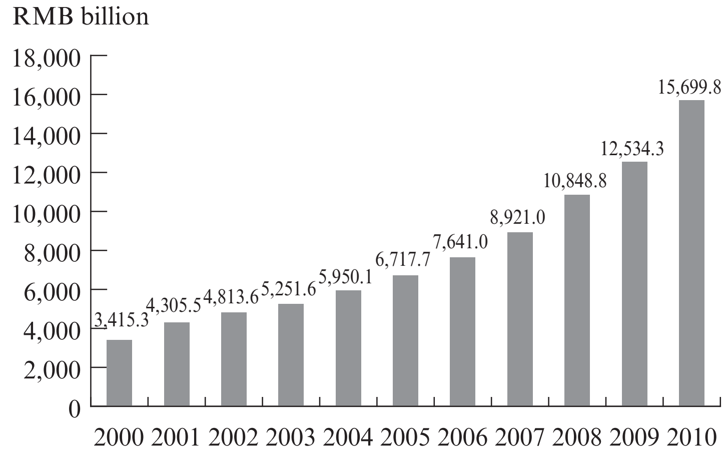


Source: National Bureau of Statistics of China

Rising retail revenue in the PRC

The improvement of personal wealth has fuelled the people's desire to improve their living standards, a driving factor for the increase in the demand of consumer goods. According to the National Bureau of Statistics of China, the total retail revenue of consumer goods increased steadily and significantly at a CAGR of approximately 16.5% from 2000. Leveraging the government policy to provide support on stimulating the domestic demand, as set out in the "Four Trillion Yuan Stimulus Plan", which was issued in November 2008, the total retail revenue in the PRC maintained a high growth rate in 2010 increased by 25.3% to approximately RMB15,699.8 billion compared with the same period from the previous year. The growth of retail revenue of consumer goods in the PRC from 2000 to 2010 is shown in the chart below.

Total retail revenue in the PRC 2000–2010

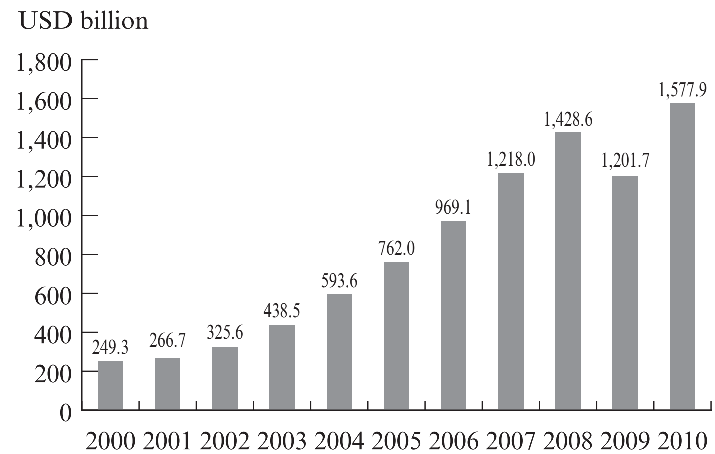


Source: National Bureau of Statistics of China

Total export is recovering in the PRC

The outbreak of the global financial crisis in the fourth quarter of 2008 adversely affected the demand of exports from the PRC in 2009 and led to a significant decline in the total export value during the year. According to the statistics from China Customs, the total value of exports dropped from 2008 to 2009 by approximately 15.9% to approximately USD1,201.7 billion. This is the first time in the past two decades that the PRC recorded a year over year drop in total export value. In 2010, overseas demand rose as export values in the PRC grew to approximately USD1,577.9 billion in 2010, representing a significant growth rate of approximately 31.3% compared to the previous year. The number exceeded the total value of exports before the outbreak of the global financial crisis in 2008, which was approximately USD1,428.6 billion. The chart below shows the total exports in the PRC from 2000 to 2010.

Total export value in the PRC 2000–2010



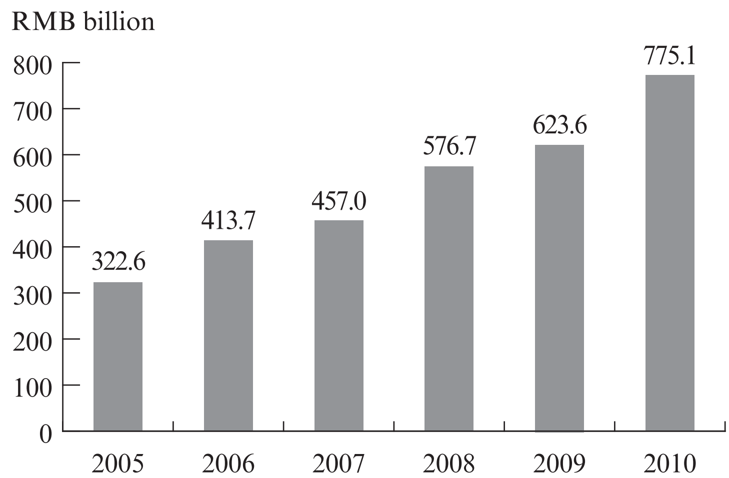
Source: China Customs

THE PACKAGING INDUSTRY IN THE PRC

Packaging not only serves the purpose of protecting products for transportation and storage, but also serves as a form of market promotion materials to attract potential customers to purchase the packed products. Message relating to products can be transferred efficiently and effectively to customers at large by fashionable design on the surface of the package.

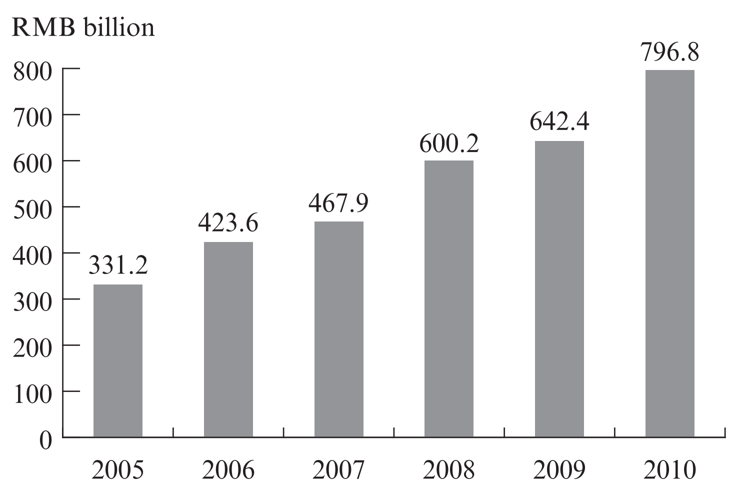
According to the Packaging Report, the total revenue of the packaging industry in the PRC was approximately RMB775.1 billion in 2010, representing a CAGR of approximately 19.2% compared with RMB322.6 billion in 2005. The total production value of packaging industry in the PRC was approximately RMB796.8 billion in 2010, representing a CAGR of approximately 19.2% compared with approximately RMB331.2 billion in 2005.

Total revenue of packaging industry in the PRC from 2005 to 2010



Source: The Packaging Report

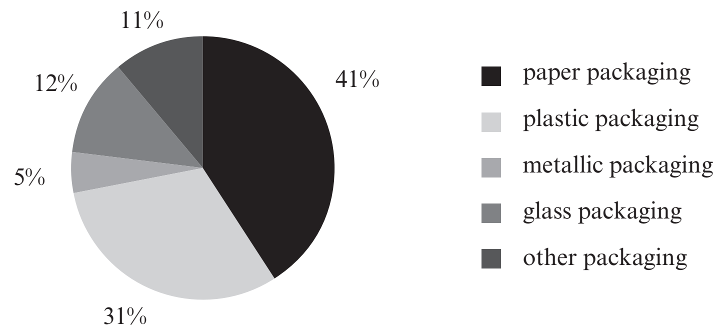
Total production value of packaging industry in the PRC from 2005 to 2010



Source: The Packaging Report

According to the Packaging Report, the total industrial production revenue of the packaging industry is mainly divided into five segments in the PRC, namely: (1) paper packaging sector; (2) plastic packaging sector; (3) metallic packaging sector; (4) glass packaging sector; and (5) other packaging sector. The paper packaging sector was the largest sector in the PRC's packaging industry in 2010 in terms of total revenue and contributed approximately RMB321.9 billion, or approximately 40.4% of the total revenue in the packaging industry.

Revenue distribution by sector in the PRC's packaging industry in 2010



Source: The Packaging Report

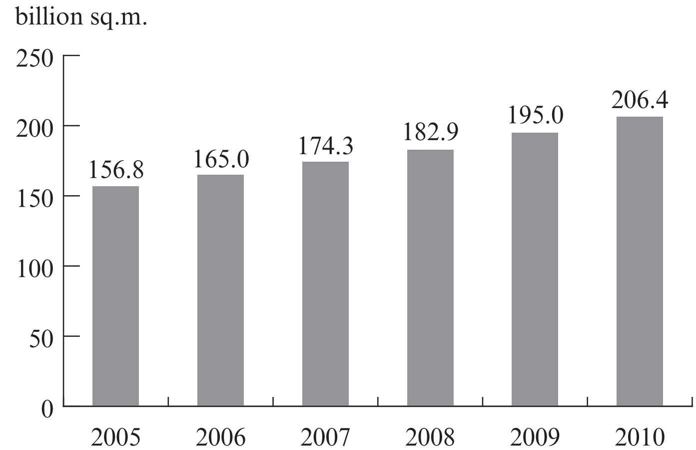
CORRUGATED CARTON PACKAGING INDUSTRY IN THE PRC

In light of the above statistics, paper packaging was the largest sector in the PRC's packaging industry in 2009. According to the Packaging Report, the paper industry is categorically divided into five sectors, namely: (1) corrugated medium paper; (2) functional protective paper; (3) decorating paper; (4) kraftlinerboard; and (5) whiteboard.

Corrugated carton packaging is a light, robust, practical and economic form of packaging. In packaging application the corrugated carton packaging can be used to replace other packaging products such as foam and plastic. In addition, as most corrugated carton packaging materials can be recycled, it is considered to be environmentally friendly. Corrugated paperboard is a rigid shipping and packaging medium that can be shaped, cut and folded into various forms and sizes. High resolution graphics and quality prints can be printed directly onto the surface of the corrugated carton. Corrugation is an effective form of transporting packages that provides effective protection and identification. Corrugated medium paper is made up from the cellulose fibres of recycled paper. This makes corrugated medium paper a recyclable and renewable resource.

According to the Packaging Report, the production output of global corrugated carton increased smoothly with a CAGR of approximately 5.7% from 2005 to 2010 as output reached approximately 206.4 billion sq.m. in 2010.

Global corrugated carton' production output from 2005 to 2010

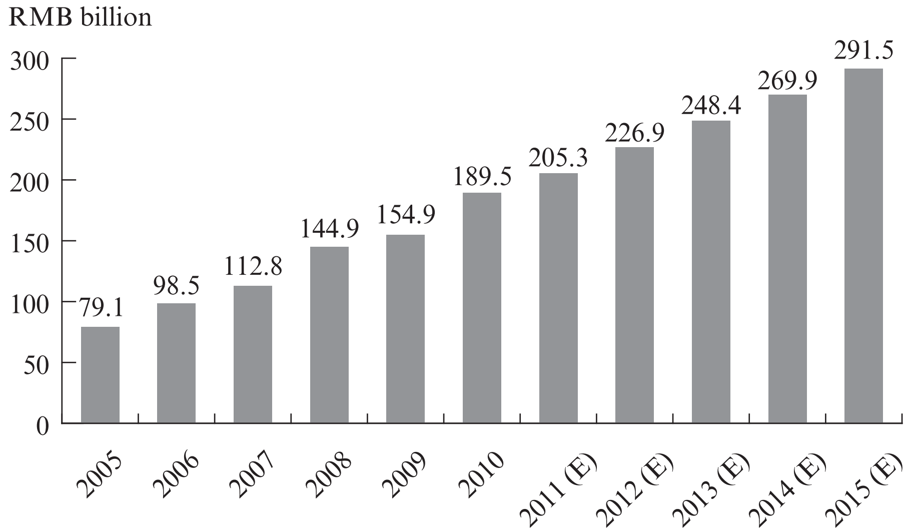


Source: The Packaging Report

The rapid growth rate of the corrugated carton packaging sector is supported by several indicators including its total revenue, production value and output. The production value in 2010 was approximately RMB197.4 billion, representing a CAGR of approximately 19.1% compared with approximately RMB82.3 billion in 2005. Moreover, the revenue of corrugated carton packaging industry in the PRC was approximately RMB189.5 billion in 2010, representing a CAGR of approximately 19.1%, as compared with approximately RMB79.1 billion in 2005. Total production output of the corrugated carton packaging industry in the PRC reached approximately 28.4 million tonnes in 2010, representing a CAGR of approximately 21.8%, as compared with approximately 10.6 million tonnes in 2005.

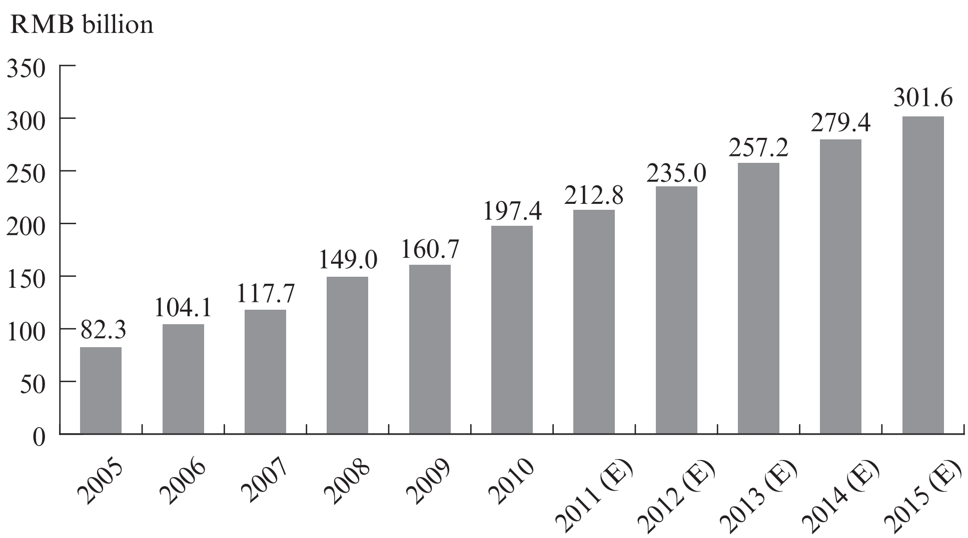
The production output and revenue of the corrugated carton packaging industry in the PRC increased sharply from 2005 to 2010 and outperformed the increase in the GDP of the PRC, despite the adverse impact on the world economies caused by the global financial crisis in the last quarter of 2008. The corrugated carton packaging sector is expected to continue growing. Moreover, the Twelfth Five-Year Plan has indicated that the increase in the GDP will be targeted at an annual rate 7% from 2011 to 2015. According to the Packaging Report, the forecast of the total revenue of the corrugated carton packaging industry in 2015 is expected to reach approximately RMB291.5 billion with a CAGR of approximately 9.0% from 2010; the total production output value is expected to reach approximately RMB301.6 billion in 2015 with a CAGR of approximately 8.8% from 2010; and the total production output is expected to reach approximately 42.8 million tonnes in 2015 with a CAGR of approximately 8.6% from 2010.

Total revenue of corrugated carton packaging industry in the PRC from 2005 to 2015



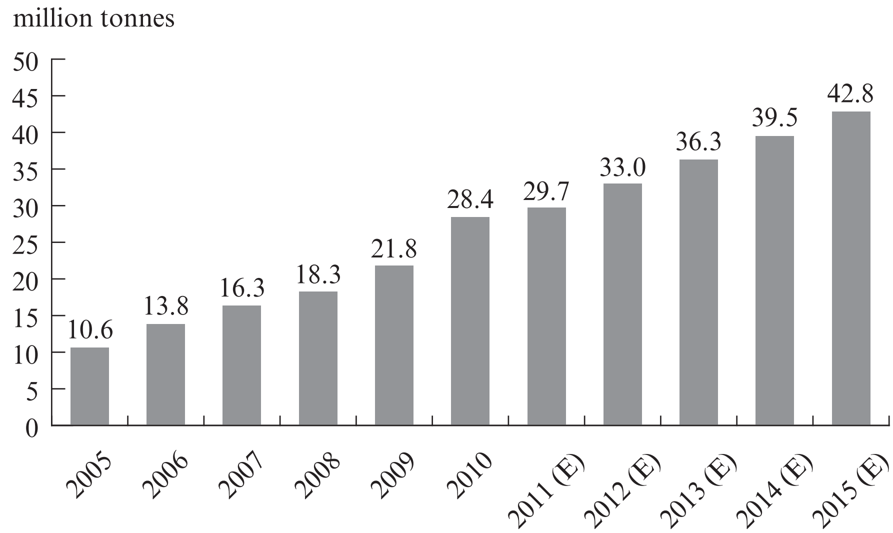
Source: The Packaging Report

Total production value of corrugated carton packaging industry in the PRC from 2005 to 2015



Source: The Packaging Report

Total production output of corrugated carton packaging industry in the PRC from 2005 to 2015



Source: The Packaging Report

THE PRC PAPER-BASED PACKAGING MARKET FOR HOUSEHOLD AIR-CONDITIONERS

Overview

In 2009, approximately 165.0 million of cartons for household air-conditioners were produced in the PRC, and the total revenue and sales volume were amounted to approximately RMB723.0 million and approximately 161.6 million, respectively. The top five suppliers, out of over a total of 100 suppliers in the PRC paper-based packaging market for household air-conditioners, accounted for approximately 62.9% of the total revenue of this industry in the PRC in 2009.

China has become the top air-conditioner production base in the world in recent years. All leading air-conditioner manufacturers would need a significant amount of paper-based packaging cartons in each of their production bases for their products. Moreover, efficient delivery of paper-based packaging cartons is desired for air-conditioner manufacturers, and hence, nearby packaging carton suppliers, with lower transportation cost, have a competitive advantage.

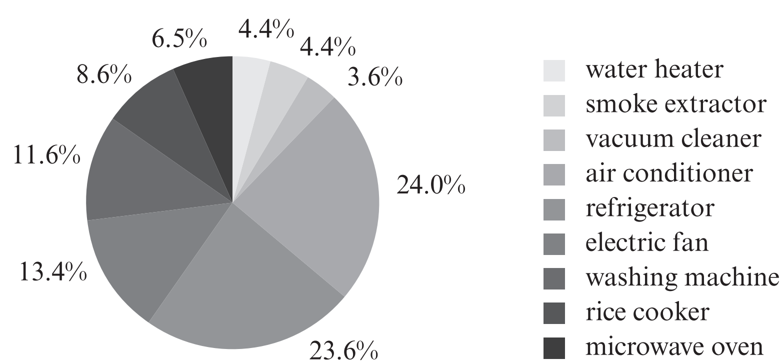
Market segmentation

Revenue

According to Synovate Report commissioned by our Group, packaging business for household air-conditioners in the PRC accounted for approximately 24.0% of the total revenue generated in the PRC packaging business for white goods in 2009. In 2009 the total sales revenue of paper-based packaging products for household air-conditioners in the PRC was approximately RMB723.0 million, representing the highest market share by total revenue among other white goods in 2009. Our Company held approximately RMB185.8 million, which represents approximately 25.7% of the total sales revenue of paper-based packaging products for household air-conditioners in the PRC, whereas the next competitor only held approximately 13.6% of the total sales revenue of cartons for household air-conditioners in the PRC. Our Company supplies to the two largest air-conditioner manufacturers in China, Gree and Midea, as well as Galanz, which are also amongst the leading air-conditioner manufacturers in the PRC. About 41.2 million sets of household air-conditioners were manufactured in Guangdong Province in 2009, representing about approximately 50.5% of the total market share in China. We believe that our Company is benefited by our proximity to the major production bases of the leading air-conditioner manufacturers in Guangdong Province. In 2009, total sales revenue of our paper-based packaging products for household air-conditioners to the top five suppliers accounted for approximately RMB454.8 million, or approximately 62.9%, of the total sales revenue of paper-based packaging products for household air-conditioners in the PRC. Among these top five paper-based packaging products suppliers for household air-conditioners, our Company had the highest revenue in 2009 of approximately RMB185.8 million, or 25.7%, of the total sales revenue of paper-based packaging products for household air-conditioners of the top five suppliers in the PRC.

The chart below shows that paper-based packaging products for household air-conditioners contributed most revenue in PRC among all paper-based packaging products for white goods in 2009, which accounted for approximately 24.0% of the total revenue of paper-based packaging products for white goods.

Total revenue of paper-based packaging product for white goods by goods types in China in 2009



Source: Synovate Report

During the Track Record Period, the revenue generated from paper-based packaging products for household air-conditioners were approximately RMB185.9 million, RMB185.8 million and RMB335.9 million which represent a significant part of our Group's revenue, approximately 50.0%, 47.8% and 59.4%, respectively of the revenue from the paper-based packaging products segment in the same period.

The table below illustrates the market share of each of the top five suppliers of paper-based packaging products for household air-conditioners in terms of sales revenue and sales volume of cartons for household air-conditioners in the PRC in 2009.

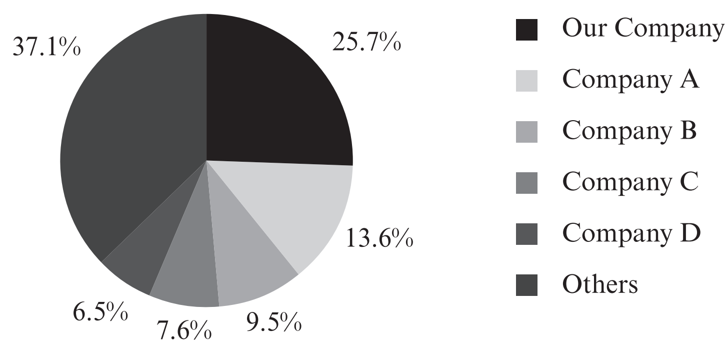
Market share of the top five paper-based packaging products suppliers in terms of sales revenue and sales volume of cartons for household air-conditioners in the PRC in 2009

Ranking	Name of manufacturer	Revenue	Sales volume	Market share by revenue	Market share by sales volume
		RMB million	*million of cartons*	*%*	*%*
1	Our Company	185.8	46.4	25.7%	28.7%
2	Company A	98.2	21.9	13.6%	13.6%
3	Company B	69.0	15.4	9.5%	9.5%
4	Company C	55.0	11.7	7.6%	7.2%
5	Company D	46.8	10.0	6.5%	6.2%
Sub-total for top five suppliers		454.8	105.4	62.9%	65.2%
Others		268.2	56.2	37.1%	34.8%
Total		723.0	161.6	100%	100%

Source: Synovate Report

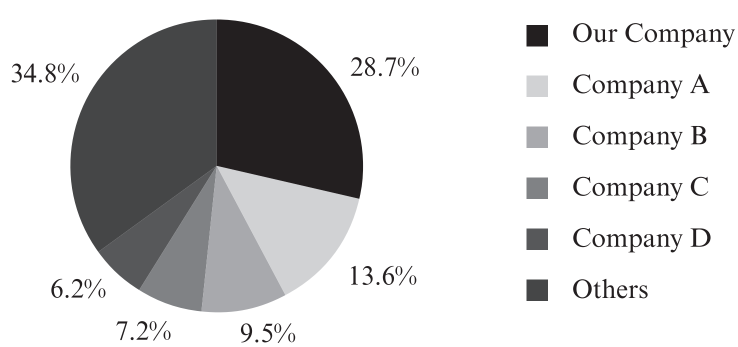
The chart below illustrates the breakdown in revenue of each of the top five paper-based packaging products suppliers for household air-conditioners in the PRC in terms of sales revenue as a percentage of the total sales revenue of paper-based packaging products suppliers for household air-conditioners.

Sales revenue of the top five paper-based packaging products supplier for household air-conditioners in the PRC



Source: Synovate Report

The chart below illustrates the breakdown in sales volume of each of the top five paper-based packaging products suppliers for household air-conditioners in the PRC in terms of sales volume of cartons as a percentage of the total sales volume of cartons for household air-conditioners.



Source: Synovate Report

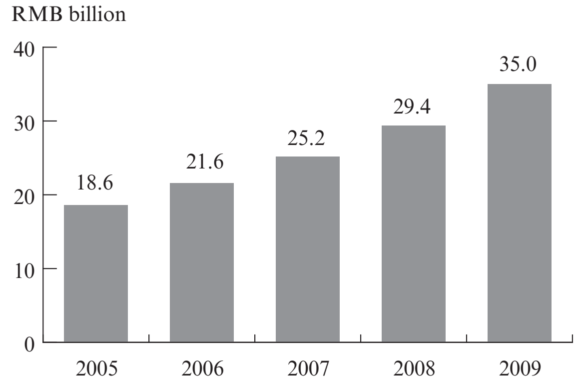
HONEYCOMB PAPER-BASED PRODUCTS

According to the Honeycomb Report, honeycomb paper-based products are very competitive in the packaging industry due to their recyclable and light properties. Moreover, more than 70% of wood packagings were replaced by honeycomb paper-based products in foreign countries in 2009 and rare supplements of honeycombs in the packaging industry in the PRC.

According to the Honeycomb Report, the global production value of honeycomb paper-based products in 2009 amounted to approximately RMB377.0 billion and, as compared with approximately RMB345.0 billion in 2008, this value represents a growth rate of approximately 9.28%.

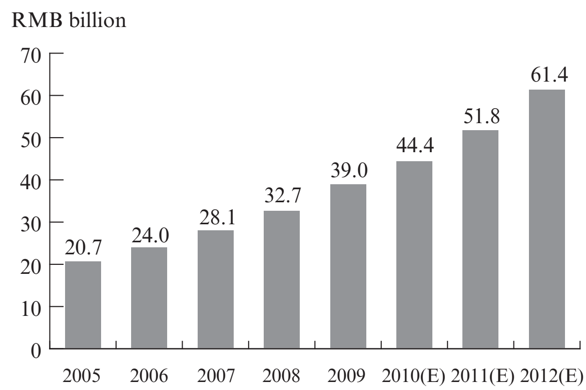
According to the Honeycomb Report, the demand for honeycomb paper-based products increased significantly in the PRC from 2005 to 2009 from approximately RMB18.6 billion to approximately RMB35.0 billion with a CAGR of approximately 17.1%. The production value of honeycomb paper-based products increased from approximately RMB20.7 billion to approximately RMB39.0 billion with a CAGR of approximately 17.2% in the PRC from 2005–2009.

Demand for honeycomb paper-based products in the PRC from 2005–2009



Source: The Honeycomb Report

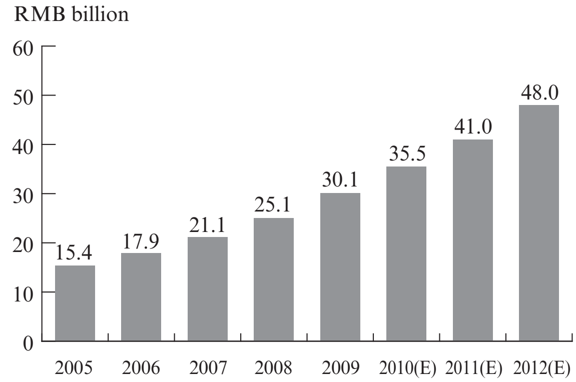
Production value of honeycomb paper-based products in the PRC 2005–2012



Source: The Honeycomb Report

The revenue of honeycomb paper-based products has been growing from approximately RMB15.4 billion to approximately RMB30.1 billion at a CAGR of approximately 18.2% in the PRC from 2005 to 2009.

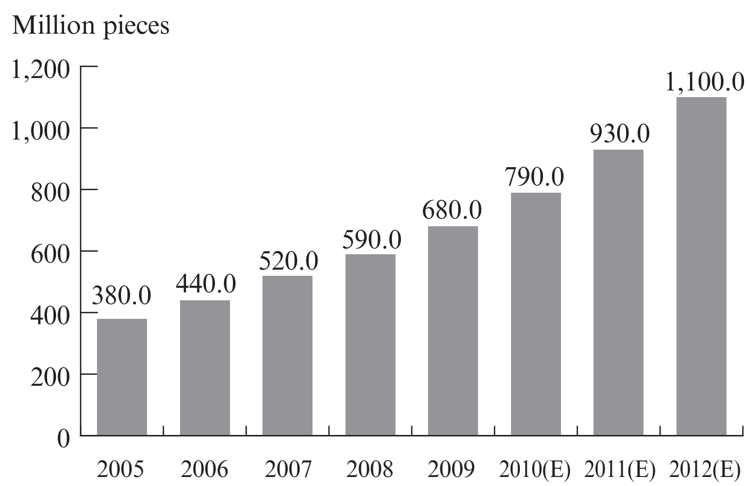
Revenue of honeycomb paper-based products in the PRC 2005–2012



Source: The Honeycomb Report

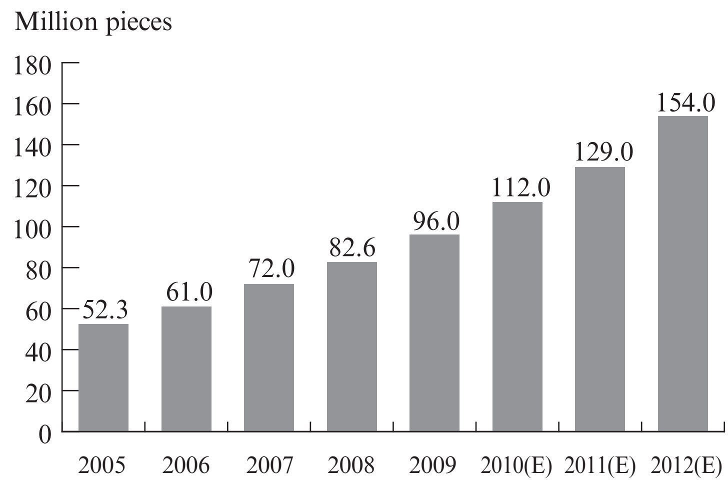
According to the Honeycomb Report, the honeycomb paper-based products can be divided into honeycomb cartons, honeycomb trays and other honeycomb paper-based products segments. The production output of honeycomb cartons increased from 380 million pieces in 2005 to 680.0 million pieces in 2009, representing a CAGR of approximately 15.7%. For the honeycomb trays products, the production volume increased to approximately 96.0 million pieces in the PRC in 2009, as compared with approximately 52.3 million pieces in 2005, representing a CAGR of approximately 16.4%.

Production output of honeycomb cartons in the PRC 2005–2012



Source: The Honeycomb Report

Production output of honeycomb trays in the PRC 2005–2012

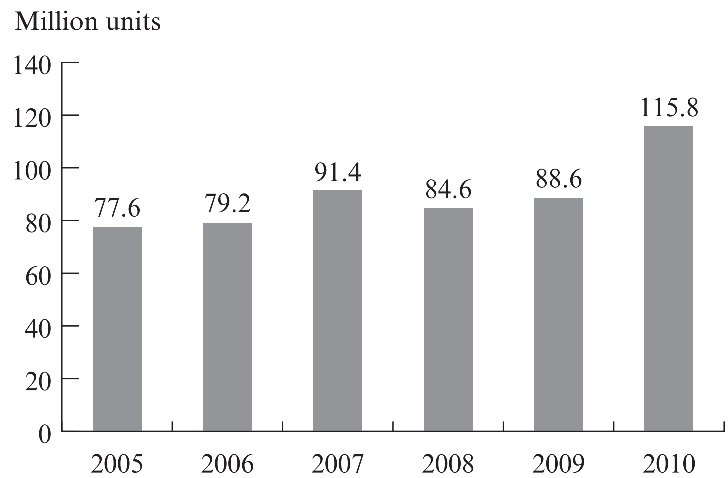


Source: The Honeycomb Report

THE HOUSEHOLD APPLIANCE INDUSTRY IN THE PRC

Corrugated cartons are extensively used for packaging of home appliances in the PRC. As such, production output, export output and relevant government policies of home appliances provide key indicators for the demand of corrugated carton. According to the National Bureau of Statistics of the PRC, the production output of home appliances, including air-conditioners, coloured televisions ("**TVs**"), refrigerators, washing machines, electric fans, microwave ovens, range hoods, rice cookers, vacuum cleaners, gas hobs, water-heaters and electric ovens, increased at a CAGR of approximately 12.2% from 2004 to 2010, to approximately 1.01 billion units in 2010. According to Wind, the production output of air-conditioners in the PRC increased at a CAGR of approximately 20.6% from 2000 to 2010, to approximately 115.8 million units in 2010. The production output in 2008 dropped approximately 7.4% due to the effect of global financial crisis.

Production output of air-conditioners in the PRC 2005–2010

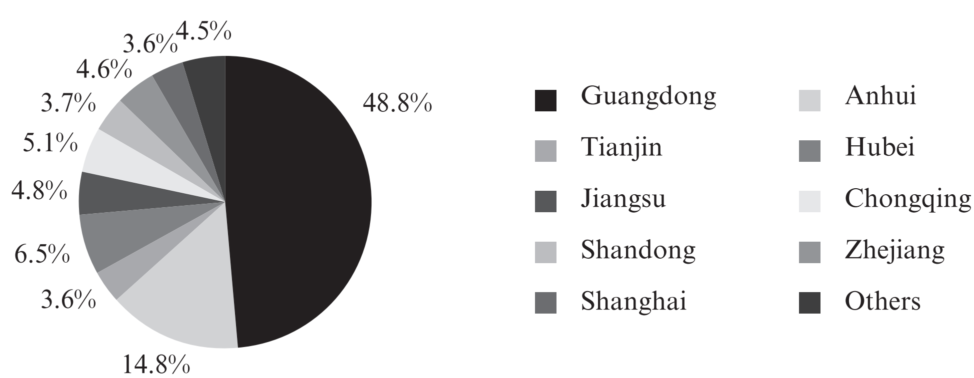


Source: Wind

Guangdong Province (and in particular the Pearl River Delta region) is the largest manufacturing base of household appliances in the PRC. According to the National Bureau of Statistics of China and China Economic Information Net, approximately 54.8 million units of air-conditioners were manufactured in Guangdong Province in 2010, representing approximately 48.8% of the total air-conditioners produced in the PRC.

Apart from Guangdong Province, Anhui Province accounted for approximately 14.8% of the total production volume and ranked second amongst other provinces in the PRC in 2010.

Geographical distribution of the production output of air-conditioners in the PRC in 2010



Source: National Bureau of Statistics of the PRC, China Economic Information Net

Export of household appliances in the PRC

Export of household appliances was impacted by the global financial crisis in the last quarter of 2008, and the effects extended to the first quarter of 2009. According to China Household Appliance Association, the export value of household appliances in 2009 decreased by approximately 13.2%

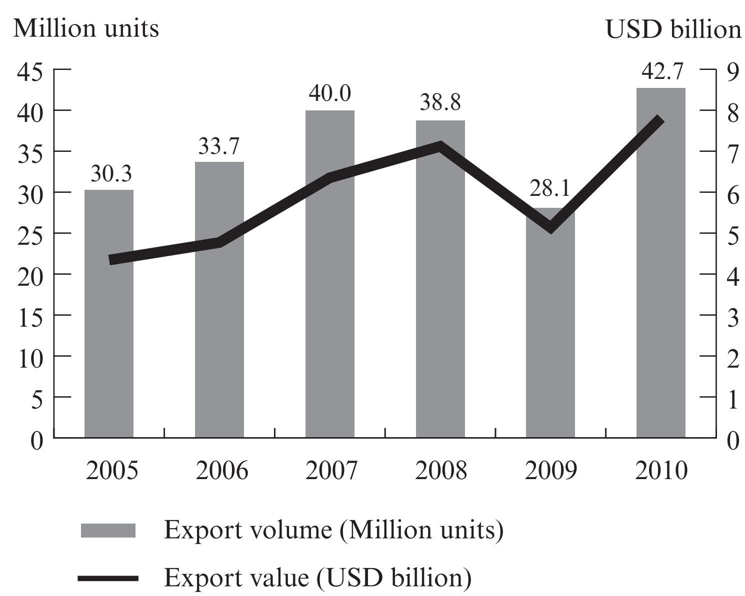
compared with the previous year to approximately USD30.8 billion. In light of the global economic recovery in 2009, export value of household appliances bounced significantly by approximately 29.7% to approximately USD19.1 billion in the first half of 2010.

The PRC government released a series of policy programs to deal with the global financial crisis and to speed up the reform of economic development. Backed by those subsidy programs, recovery of the economies in the PRC continued in 2010. Due to the low base in the first half of 2009, industrial productions maintained fast growth in the first half of 2010, and profits made by enterprises increased substantially.

Export of air-conditioners in the PRC

According to Wind, export volume and value of air-conditioners in 2009 decreased by approximately 27.6% and 27.9% compared with the previous year to approximately 28.1 million units and approximately USD5,135.8 million, respectively. In 2010, both export volume and value of air-conditioners bounced to approximately 42.7 million units and approximately USD7,812.4 million, respectively, which was even higher than the output and value prior to the global financial crisis in 2008.

Export of air-conditioners in the PRC 2005–2010



Source: Wind

SOURCES OF INFORMATION

Shangpu

Shangpu is a research, consulting and systems integration institution addressing diversified information needs of governmental and commercial clients. Shangpu is an Independent Third Party. Information disclosed in this prospectus from Shangpu is extracted from a report not commissioned by our Company or the Sole Sponsor. Certain information and statistics contained in this prospectus are extracted from the Packaging Report issued by Shangpu in August 2010. Shangpu was founded in 1999 and is located in Beijing, PRC. The research expertise of Shangpu involves 16 different industries, such as agriculture-food, steel, metallurgy, bio-medicine, energy, environmental, petrochemical, transportation, electronics, machinery processing, garment and textile, electrical power, financial services, construction, real estate, automotive, appliance communications and education. The business of Shangpu can be divided into 4 sectors, including: (i) industry research; (ii) market interviews; (iii) investment consulting; and (iv) commercial data. As of the end of 2009, Shangpu had completed approximately 3,000 consulting projects. The key clients of Shangpu include some Global 500 enterprises, government, banks, schools and commercial clients in the PRC.

CENC

CENC is a research, consulting and systems integration institution addressing diversified information needs of government, banks, schools and commercial clients. CENC is an Independent Third Party. Information disclosed in this prospectus from CENC is extracted from a report not commissioned by our Company or the Sole Sponsor. Certain information and statistics contained in this prospectus are extracted from the Honeycomb Report issued by CENC in September 2010. Founded in 2003, CENC was issued Class A qualification certificate by the Development and Reform Commission. With many years of experience in research, CENC had completed approximately 84,000 research reports till July 2009, covering 21 main industry categories such as energy, petrochemical, tourism and hotel, real estate, food, apparel, pharmaceutical, mechanical, cultural, building material, metallurgy and circulation industry research. The reports also covered more than 300 sub-industries and 17,600 products. The key clients of CENC include government, banks or investment institutions, research institutions, consulting companies and group companies.

PRC GOVERNMENT'S INITIATIVES TO ENCOURAGE SPENDING ON HOUSEHOLD APPLIANCES

Rural Appliance Rebate Program

Background

The Rural Appliance Rebate Program is aimed at boosting rural consumption and supplying the rural market with reliable and affordable household appliances and consumer electronics. Appliances included in this subsidy program are air-conditioners, coloured TVs, refrigerators, mobile handsets, washing machines, water heaters, personal computers, microwave ovens and other household appliances. This program became increasingly important to stimulate the domestic consumption and demand for the household appliances after the outbreak of the global financial crisis in the last quarter of 2008. Manufacturers in China have shifted their focus to the domestic market as the export market has weakened since 2009.

Launched in December 2007, the pilot scheme of the rebate program covered Henan Province, Shandong Province and Sichuan Province. This program helps manufacturers sell household appliances in rural areas by subsidizing 13% of the eligible merchandise price paid by rural consumers. Generally, the central government covers 80% of the rebate, and the local government is responsible for the remaining 20%, while in a small number of areas, the central government is responsible for all of the rebate.

According to the National Bureau of Statistics of China, these three provinces have the largest rural populations in China, accounting for approximately 22.5% of the total national rural population in 2007.

In October 2008, the PRC Government included Inner Mongolia Autonomous Region, Liaoning province (including Dalian), Heilongjiang Province, Anhui Province, Shandong Province (including Qingdao), Henan Province, Hubei Province, Hunan Province, Guangxi Province, Chongqing Municipality and Shaanxi Province in the program to bring the participating provinces, municipalities and autonomous regions to a total number of 14. According to the National Bureau of Statistics of China, these 14 provinces and regions accounted for more than half of the national rural population in 2007.

The duration of the program was supposed to last from 1 December 2007 to 31 May 2008. On 13 October 2008, the PRC Government decided to extend the program to 30 November 2012.

Pursuant to 加大家電下鄉政策實施力度的通知(財建[2009]48) (Notice on Intensifying the Implementation of the Policy of Household Appliances Going to the Rural Areas (No. 48 of 2009 of the Ministry of Finance)*) promulgated on 26 February 2009 by the Ministry of Finance, MOFCOM and the Ministry of Industry and Information Technology, the PRC government determined that rebates to consumers in rural areas for the purchase of any product in the six designated categories of household appliances would be uniformly implemented nationwide. Previously, each province (or autonomous region or municipality) had the autonomy to select two categories among motorbikes, personal computers, water heaters and air-conditioners as being eligible for this program. On 16 April 2009, the Ministry of Finance, together with MOFCOM, the Ministry of Industry Information Technology, the National Development and Reform Commission and other members of Joint Meeting of Household Appliances Going to the Rural Areas promulgated 家電下鄉操作細則 (Detailed Operation Rules for Household Appliances Going to the Rural Areas*).

According to the statistics by MOFCOM, sales volume of household appliances under this program amounted to approximately 37.7 million units and 59.5 million units in 2009 and the first ten months of 2010 respectively, with a total sales value of approximately RMB69.4 billion and RMB132.3 billion respectively. For the figures in the first ten months of 2010, compared to the full year in 2009, both figures increased by approximately 57.8% and 90.6%, respectively. The accumulated sales volume and value of household appliances from the launch of the program to the end of March 2011 by this program reached approximately 150.0 million units and RMB327.4 billion, respectively. The table below shows the registered sales of household appliances under the "Rural Appliance Rebate Program" in the PRC in 2009 and the first ten months of 2010.

Registered sales of household appliances under “Rural Appliance Rebate Program” in 2009

	Registered sales volume *million units*	Registered sales value *RMB billion*	Sales value share *%*
Refrigerators	15.6	32.0	46.1%
Coloured TVs	8.8	14.8	21.3%
Air-conditioners	3.0	8.1	11.7%
Washing machines	5.6	6.2	9.0%
Personal computer	1.3	4.4	6.3%
Water heaters	1.3	2.6	3.8%
Mobile handsets	1.8	1.1	1.6%
Micro-ovens	0.1	0.1	0.1%
Electric induction cookers	0.2	0.1	0.1%
Total	37.7	69.4	100.0%

Registered sales of household appliances under “Rural Appliance Rebate Program” in the first ten months of 2010

	Registered sales volume *million units*	Registered sales value *RMB billion*	Sales value share *%*
Refrigerators	20.8	46.2	34.9%
Coloured TVs	13.9	36.1	27.3%
Air-conditioners	1.2	0.9	0.7%
Washing machines	9.3	10.9	8.2%
Personal computer	3.3	11.7	8.9%
Water heaters	4.9	14.5	11.0%
Mobile handsets	4.7	11.1	8.4%
Micro-ovens	0.7	0.5	0.4%
Electric induction cookers	0.7	0.3	0.2%
Total	59.5	132.2	100.0%

Source: MOFCOM

Change of the Old for New Program

Pursuant to 國務院辦公廳關於轉發發改委等部門促進擴大內需鼓勵汽車家電以舊換新實施方案的通知(國辦發[2009]44) (*The Notice on Change of the Old for New Program in Motor Vehicle and Household Appliances Industry to Boost Domestic Consumption issued by the State Council of the PRC on behalf of PRC National Development and Reform Commission and other authorities (No. 44 of 2009 of the National Development and Reform Commission**) promulgated and implemented on 1 June 2009 and the relevant implementation rules issued on 28 June 2009, eligible citizens in Beijing, Tianjin, Shanghai, Jiangsu Province, Zhejiang Province, Shandong Province, Guangdong Province, Fuzhou (Fujian Province) and Changsha (Hunan Province) may enjoy rebates from the government by exchanging their old household appliances for new ones between 1 June 2009 and 31 May 2010.

Domestic households are entitled to a 10% discount for the purchase of new products in exchange for the old ones. Five products were included in the program, namely, TV sets, refrigerators, washing machines, air-conditioners and personal computers. The subsidy caps for five products were set at RMB400/set, RMB300/set, RMB250/set, RMB350/set and RMB400/set, respectively.

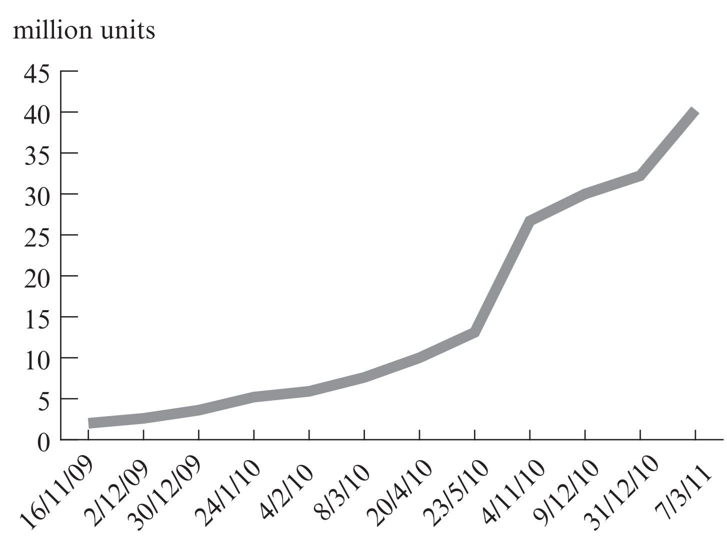
According to 商務部、財政部、環境保護部關於印發家電以舊換新推廣工作方案的函 (*The Letter of MOFCOM, Ministry of Finance and MEP regarding the Promotion Program of the Change Old for New Program of Household Electrical Appliances**) issued by the MOFCOM, Ministry of Finance of the PRC and MEP on 3 June 2010, the Change of the Old for New Program was extended in provinces and cities including Guangdong and Shenzhen (Guangdong) provisionally until 31 December 2011 and expanded to provinces including Anhui. 19 more cities were included in the program, amounted to 28 provinces and cities in total. According to the notice of the program issued on 21 June 2010, the category of subsidised products and subsidy caps remain the same.

Result from the implementation of the program

According to the Central People's Government of the PRC since the implementation of the program from June 2009 to 7 March 2011, approximately 14,346,000 TV sets, 5,478,000 refrigerators, 5,299,000 washing machines, 8,816,000 air-conditioners and 6,329,000 personal computers, with a total of 40,268,000 units were sold under the program, recording a sales value of over RMB152.1 billion.

According to the Economic and Information Commission of Guangdong Province, the accumulated sales volume of household appliances under the Old for New Program and Rural Appliance Rebate Program was approximately 3.3 million units and 1.3 million respectively with total value approximately RMB26.0 billion in 2010.

Accumulated sales output of household appliances under the Change of the Old for New Program

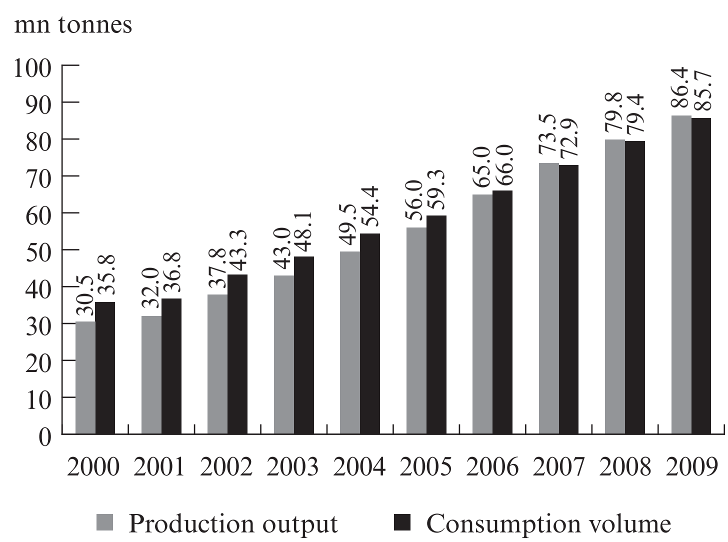


Source: MOFCOM

PAPER INDUSTRY IN THE PRC

The levels of production output and consumption volume of paper in the PRC have shown continuous growth in the past decade. According to China Paper Association, production output and consumption volume of paper and paperboard increased to approximately 86.4 million tonnes and 85.7 million tonnes in 2009 at a CAGR of approximately 12.3% and 10.2% from 2000, respectively.

Production output and consumption volume of paper and paperboard in the PRC 2000–2009

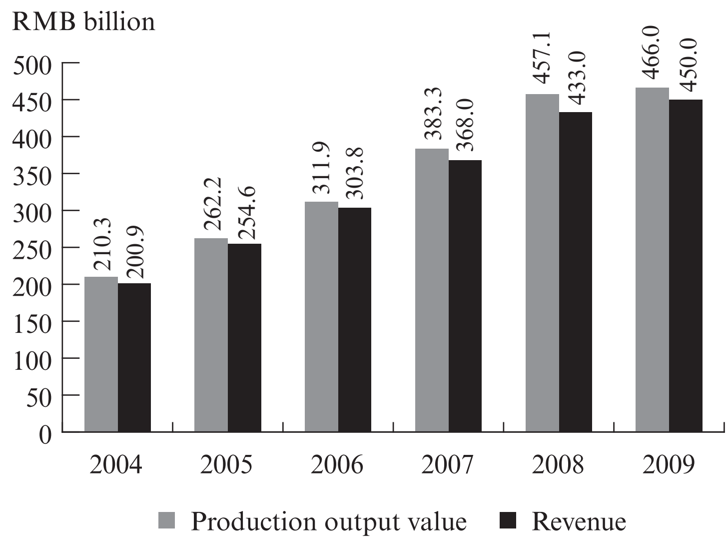


Source: China Paper Association

According to the 中國造紙工業2009年度報告 (China Paper Industry Report 2009*) issued by China Paper Association, the number of enterprises in the paper production industry increased from 3,500 in 2008 to 3,700 in 2009.

The production value and revenue of the paper industry in the PRC showed an increasing trend from 2004 to 2009 with approximately RMB466.0 billion and RMB450.0 billion in 2009, respectively. Compared with the production value amounting to approximately RMB210.3 billion and revenue of approximately RMB200.9 billion in 2004, the CAGR was approximately 17.2% and 17.5%, respectively.

Production value and revenue of paper industry in the PRC

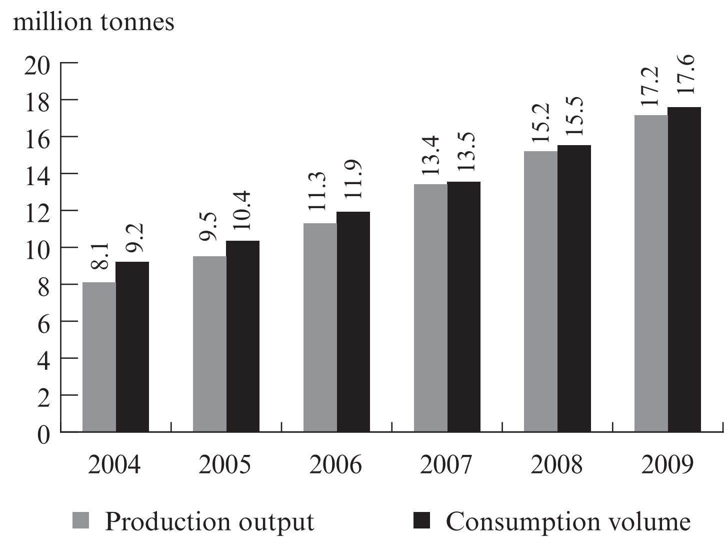


Source: China Paper Association

Corrugated medium paper

In 2009, the production output of corrugated medium paper was approximately 17.2 million tonnes, representing an approximately 13.2% increase as compared to 2008. The consumption volume of corrugated medium paper was approximately 17.6 million tonnes, representing an approximately 13.3% increase as compared to 2008. According to China Paper Association, the levels of production output and consumption volume of corrugated medium paper increased to approximately 17.2 million tonnes and 17.6 million tonnes at a CAGR of approximately 16.3% and 13.9%, respectively from 2004 to 2009.

Production output and consumption volume of corrugated medium paper in the PRC



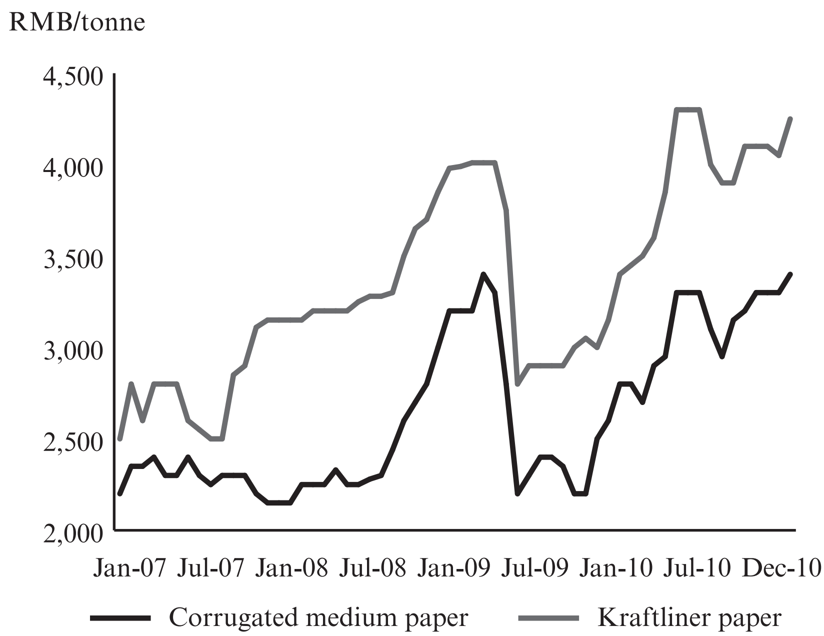
Source: China Paper Association

Prices of raw paper and waste paper

Corrugated medium paper and kraftliner paper are the major raw materials for paper-based packaging products by our Group. The prices of corrugated medium paper in the PRC market were volatile in the past few years. According to Umpaper, the price of corrugated paper and kraftliner paper in the PRC market increased significantly from RMB2,250 and RMB3,250 per tonne in October 2007 to RMB3,400 and RMB4,010 per tonne in September 2008, respectively. However, the global financial crisis in late 2008 deeply impacted the prices of these two kinds of raw paper used by our Group, and the prices of corrugated paper and kraftliner paper in the PRC market dropped dramatically to RMB2,200 and RMB2,800 per tonne, respectively, in the last quarter of 2008. For the year ended 2008, the average selling price of corrugated medium paper of our Group were in line with the average market price in general. On the other hand, the average selling price of corrugated medium paper of our Group for the year ended 31 December 2009 amounted to approximately RMB1,939 per tonne which was below the market average price in general. This was mainly attributable to more lower quality model of corrugated medium paper with lower price were sold to customers resulting from the impact brought from the financial crisis. As the global economy gradually picked up since early 2009, the prices of corrugated medium paper and kraftliner paper in the PRC market also bounced back during 2009 and reached the level prior to the global financial crisis during 2010, amounting to RMB3,400 and RMB4,250 per tonne, respectively.

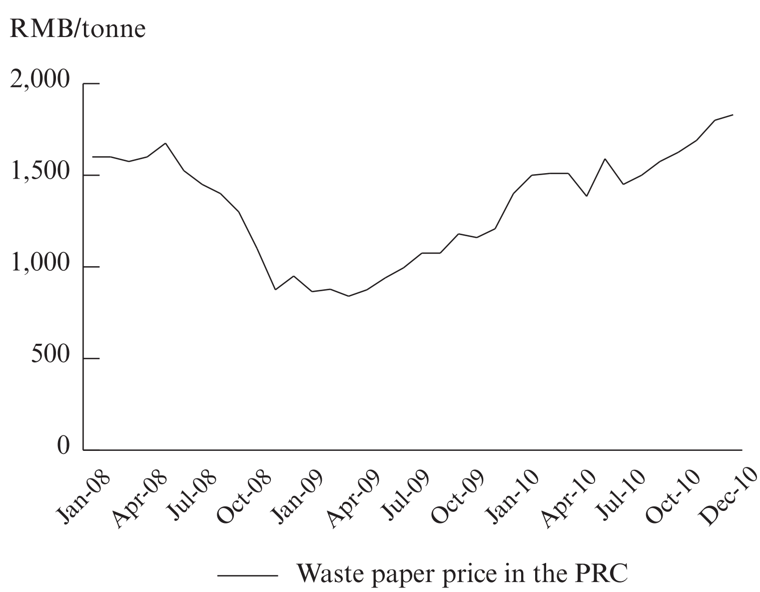
Price trends of corrugated medium paper and kraftliner paper

Average class A raw paper price trends in the PRC market



Source: Umpaper

Domestic waste paper price trends



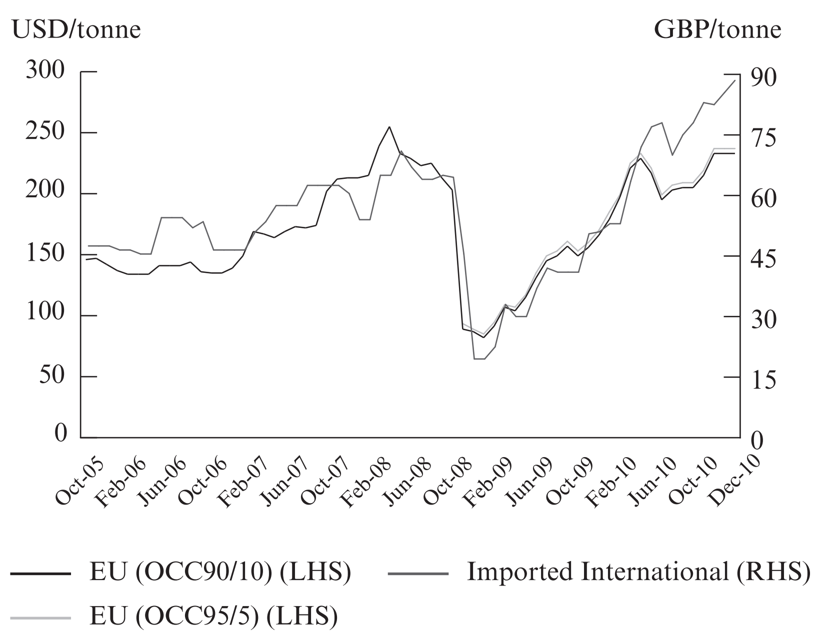
Source: Umpaper

Yellow paperboard, or it is called old yellow corrugated carton, is known as a common kind of waste paper in the PRC market. According to the Umpaper, the price of yellow paperboard dropped significantly from RMB1,675 per tonne in the mid of 2008 to RMB875 per tonne in late 2008 due to the global financial crisis. The price of yellow paperboard bounced back since the first quarter of 2009 and reached RMB1,830 per tonne in December 2010, exceeding the price prior to the global financial crisis.

Old Corrugated Cardboard ("**OCC**"), a form of waste paper, is a major component for the production of corrugated medium paper. The price of imported OCC was volatile in the past few years. According to World Scrap, the price of imported OCC rose to a high level of USD255 per tonne (EU waste paper OCC90/10) as at the end of March 2008. However, due to the combined impacts of the commodity bubble burst and global financial crisis that occurred in the last quarter of 2008, the price of imported OCC (EU waste paper OCC90/10) dropped to USD82 per tonne as at the end of December 2008. In light of the recovery of the global economy, the price of imported OCC (EU waste paper OCC90/10) bounced to USD237 per tonne as at the end of December 2010.

Price trends of imported OCC

Imported OCC price trends



Source: World Scrap

BACKGROUND OF THE SYNOVATE REPORT

We engaged the business consulting unit of Synovate Limited to undertake a research on the Competitor Ranking for Packaging Product Manufacturing in China at a fee of approximately HK$90,000. The research is set out in the Synovate Report. Our Directors confirm that Synovate Limited, including all of its subsidiaries, divisions and units, is independent of and not connected with us in any way.

Synovate Limited, on behalf of itself, its subsidiaries and units, has confirmed that the Synovate Report was prepared in its ordinary course of business, and has given its consent for us to quote from the Synovate Report and to use information contained in the Synovate Report in this prospectus.

The information contained in the Synovate Report is derived by means of data and intelligence gathering methodology which includes: (i) desk research conducted by the business consulting unit of Synovate Limited including specialised industry literature, government/regulatory sources, online data sources, third-party reports and surveys, industry reports and analyst reports, industry associations and the database maintained by Synovate Limited; and (ii) primary research by interviews with key stakeholders and industry experts.

According to the business consulting unit of Synovate Limited, Synovate Limited was formed in 2003 and is a research institute with close to 6,000 employees worldwide and coverage in over 100 cities spanning over 60 countries. It is a market research unit of Aegis Group plc, a company listed on the London Stock Exchange. Services of the business consulting unit of Synovate Limited include market profiling, market sizing, share and segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence.

This prospectus contains some information extracted from the Synovate Report, and they are in sections headed “Summary”, “Industry overview”, “Business” and “Financial information”.

OVERVIEW

Set forth below are summaries of certain PRC policies, laws and regulations applicable to the paper making and printing industry.

ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC (中華人民共和國公司法) (the "**Company Law**"), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was last amended on 27 October 2005 and became effective from 1 January 2006. Under the Company Law, the companies are generally classified into two categories: limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have different stipulations, such stipulations shall prevail.

According to the Implementing Opinion on Several Issues Concerning the Application of Law in the Administration of the Examination, Approval and Registration of Foreign-invested Companies (關於外商投資的公司審批登記管理適用法律若干問題的執行意見) issued jointly by the State Administration for Industry and Commerce, MOFCOM, the General Administration of Customs and the State Administration of Foreign Exchange on 24 April 2006 and became effective on the same day, the organization structure of limited liability companies in the form of a foreign equity joint venture, wholly foreign-owned limited liability company or foreign-invested stock-holding limited company shall comply with the provisions of the Company Law and the articles of associations. Furthermore, where a foreign-invested company increases its registered capital, the shareholders of a limited liability company (including one-person limited company), or the stock holding limited company established by way of promotion shall pay no less than 20% of the registered capital to be increased when the company applies for modifying the registration of registered capital. The time of capital contribution of the remaining portion shall meet the provisions of the Company Law, the laws on foreign investment and Regulations on the Administration of Company Registration. If other laws or administrative regulations provide otherwise, such provisions shall prevail.

The establishment procedures, approval procedures, registered capital requirements, foreign currency exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the "**Wholly Foreign-owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and the Implementation Rules to the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001.

FOREIGN INVESTMENT IN PAPER AND PRINTING INDUSTRY

General Provisions

In order to regulate foreign investment in certain industries in the PRC, the PRC government promulgates Catalogue of Industry for Guiding Foreign Investment (外商投資產業指導目錄) (the "**Catalogue**") from time to time. Over the past years, there have been several changes in the policies and regulations on foreign investment in the paper making and printing industry in the PRC.

On 28 June 1995, the former State Planning Commission, the former State Economic and Trade Commission and the former Ministry of Foreign Trade and Economic Cooperation (the "**Three Authorities**") promulgated the Catalog, under which foreign investment in manufacture of commercial-grade paper pulp was encouraged, foreign investment in printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 31 December 1997, the Three Authorities promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 January 1998. Pursuant to the revised Catalogue, foreign investment in manufacture of paper pulp with an annual production capacity of 170,000 tonnes or more of wood pulp, with a related raw material base was encouraged, foreign investment in printing was restricted (limited to company with the Chinese party holding the controlling or leading position), foreign investment in manufacture of paper and paper plate was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in the other paper manufacturing projects was permitted.

On 11 March 2002, the Three Authorities promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 April 2002. Under this revised Catalogue, foreign investment in (i) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanic wood pulp (CTMP, BCTMP, APMP) production capacity of 100,000 tonnes or more, and raw materials forest bases (limited to joint ventures and co-operative ventures); or (ii) production of high-grade papers and paperboards (excluding newsprint) was encouraged, foreign investment (with the Chinese Party having a controlling interest) in printing of publications other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 30 November 2004, MOFCOM and 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*) promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 January 2005. Pursuant to this revised Catalogue of Industry Guidelines, foreign investment in (i) construction and operation of forest-wood pulp integration projects with annual chemical wood pulp production capacity of 300,000 tonnes or more, annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more (only in the form of equity joint ventures and co-operative ventures); or (ii) manufacture of high-grade papers and paperboards (only in the form of equity joint ventures and co-operative ventures) was encouraged, foreign investment (with the Chinese party having a controlling interest) in printing of publications other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing projects was permitted.

On 31 October 2007, MOFCOM and the 中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC*) promulgated a revised Catalogue, which took effect and superseded the previous Catalogue on 1 December 2007. Pursuant to this revised Catalogue, foreign investment in the construction of forest and paper integration project with annual chemical wood pulp production capacity of 300,000 tonnes or more for a single production line, and annual chemical mechanical wood pulp production capacity of 100,000 tonnes or more for a single production line and the simultaneous construction for the manufacture of high-grade paper and paperboards (only in the form of equity joint ventures or contractual joint ventures) was encouraged, foreign investment (with the Chinese party having a controlling interest) in printing of publications other than decoration and packaging printing was restricted, foreign investment in manufacture of rice paper was prohibited, while foreign investment in other paper manufacturing project was permitted.

Special Provisions

Policies for Paper Making Industry

According to the China's 11th Five-Year Plan, the following proposals have been made: "adjusting structure of materials of the paper making industry; reducing water consumption and pollutants emission; eliminating obsolete straw pulp production lines; implementing forest-paper integration in suitable regions". In the light of the above proposals, the NDRC promulgated the Development Policy for Paper Making Industry (造紙產業發展政策) on 15 October 2007, pursuant to which the following policies were advocated: (i) using wood fibers and recovered paper as the major raw materials for paper manufacturing; (ii) raising the utilization rate and recycling rate of recovered paper; (iii) reducing the number of small-scaled paper manufacturing enterprises; (iv) introducing environmentally friendly technologies and skills to paper manufacturing enterprises to achieve the purpose of reducing pollutants; and (v) using recovered paper to manufacture newsprint paper and wrapping paper. "Scale and environment" will be a major concern for the development of the paper making industry and will subsequently pose a considerable impact on the management and development of paper manufacturers.

Regulations for Printing Industry

On 2 August 2001 the State Council promulgated 印刷業管理條例 (Regulations on the Administration of the Printing Industry*) which came into effect on the same day. The Regulations on the Administration of the Printing Industry applies to the operations of publications printings, decoration and packaging printing, and other printing operational matters.

The Regulations on the Administration of the Printing Industry provides that the State adopts license system for printing operations. No enterprise or individual may undertake printing operations without obtaining the license for printing operations according to these Regulations. Foreign investment in decoration and packaging printing can be established as a wholly foreign owned enterprise, while foreign investment is only allowed to participate in other types of printing business in the form of equity joint venture or contractual joint venture. Printing operator shall establish systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery and disposal of printed defective goods. Company that violates this regulation may subject to penalties including but not limited to fines, ordering to rectify, revocation of the licence, etc.

The Interim Provisions on the Establishment of Foreign Investment Printing Enterprise (設立外商投資印刷企業暫行規定) was implemented on 29 January 2002, which applies to the printing enterprises with foreign investment established in the PRC. The establishment of a foreign invested enterprise shall apply for the approvals from the General Administration of Press and Publication (中華人民共和國新聞出版總署) and former MOFOCOM or its local counterpart. The registered capital shall be no less than RMB10 million for foreign invested enterprise engaging in decoration and packaging printing and the term of operation of the enterprise shall be no more than 30 years. On 12 November 2008 the General Administration of Press and Publication and MOFCOM promulgated Supplement to the Interim Provisions on the Establishment of Foreign Investment Printing (關於設立外商投資印刷企業暫行規定的補充規定), which took effect on 1 January 2009. Pursuant to this supplement, the registered capital threshold for foreign invested enterprise engaging in decoration and packaging printing as stipulated in the Interim Provisions on the Establishment of Foreign Investment Printing Enterprise is no longer applicable to Hong Kong or Macao investors. Hong Kong or Macao investors shall have the same registered capital requirement as domestic investors.

The Interim Measures on the Qualifications of Printing Operators (印刷業經營者資格條件暫行規定) was implemented on 9 November 2001. Enterprises undertaking decoration and packaging printing shall have fixed production and operation place(s) suitable for operation of printing business, which shall not be less than 600 square meters; shall have a minimum registered capital of no less than RMB1,500,000; shall have necessary equipment for decoration and packaging printing; shall have corresponding organizations and personnel necessary for the operation; shall have completed systems of printing undertaking verification, printing undertaking registration, printed goods custody, printed goods delivery, printed defective goods destroying, financial and quality control and its legal representative and major personnel in charge of production or operation shall be trained and shall obtain the certificate of completion of training of printing regulations.

Licenses for Special Operations

Pursuant to the Administrative Regulations on Power Business Licenses (電力業務許可證管理規定), which was promulgated on 28 September 2005 and effective from 1 December 2005, an enterprise that engages in the electric power business within the PRC is required to obtain electric power business license in accordance with the regulations. Unless special circumstances as prescribed by the State Electricity Regulatory Commission arise, no enterprise or individual may engage in the electric power business before obtaining an electric power business license. In particular, an enterprise that engages in the business of power generation is required to obtain a business license for power generation; an enterprise that engages in the business of power transmission is required to obtain a business license for power transmission; and an enterprise that engages in the business of power supply is required to obtain a business license for power supply. An enterprise that engages in two or more electric power businesses shall respectively obtain two or more electric power business licenses for their relevant electric power business.

In accordance with the Regulations of the PRC on Road Transport (中華人民共和國道路運輸管理條例), which was promulgated on 30 April 2005 and effective from 1 July 2005, anyone who wishes to engage in the freight transport business shall have: (i) vehicles that meet the demand of its business operations, and which are found, to be qualified after testing; and (ii) drivers that meet the requirements as prescribed in the relevant regulations as well as sound rules and bylaws regarding safe operations. Furthermore, anyone who wishes to engage in the freight transport business shall apply to the relevant road transport authority for a road transport business operation license and a vehicle operation certificate for the vehicle to be used for transport.

According to the Port Law of the PRC (中華人民共和國港口法), which was promulgated on 28 June 2003 and effective from 1 January 2004, a port operator is required to have fixed operation sites, corresponding facilities, equipment, professional technicians and management personnel relating to the operation businesses in place, as well as being qualified for other conditions specified by laws and regulations, in order to obtain the port operation license. Furthermore, anyone who wishes to engage in port operations shall apply to the relevant port administrative department for a port operation license and obtain registration of industry and commerce according to the PRC law.

TAXES AND DUTIES APPLICABLE TO PAPER MAKING AND PRINTING INDUSTRY

Income tax

General Provisions

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (the "**FIE Tax Law**"), which was promulgated on 9 April 1991 and effective from 1 July 1991 and its related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax rate of 30% and a local income tax rate of 3% unless a lower rate was provided by other laws or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places of business in Special Economic Zones engaging in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at a reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones, or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at a reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the newly promulgated Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**New Tax Law**"), which was promulgated on 16 March 2007 and effective from 1 January 2008, and the Implementation Rules to the New Tax Law (中華人民共和國企業所得稅法實施條例) (the "**Implementation Rules**"), which was promulgated on 6 December 2007 and effective from 1 January 2008, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25%. While qualifying small-scale enterprises with minimal profits are subject to the applicable enterprise income tax rate of 20% and high and new technology enterprises that require key state support are subject to the applicable enterprise income tax rate of 15%. The New Tax Law also provides certain relief that applies to enterprises that were established prior to 16 March 2007 if, (i) such foreign-invested enterprise enjoys reduced tax rates under the previous tax laws and regulations, the tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) such foreign-invested enterprise enjoys tax holidays for a fixed period under the previous tax laws and regulations, such foreign-invested enterprises can continue to enjoy the tax holiday until its expiry according to the provisions of the State Council. However, if an enterprise has not started to enjoy the tax holiday due to a lack of profit, 2008 will be regarded as the first profit-making year and the enterprise starts to enjoy the tax holiday.

Special Provisions

Pursuant to the Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (關於企業重組業務企業所得稅處理若干問題的通知) (the "**No. 59 Circular**"), which was promulgated on 30 April 2009 and effective from 1 January 2008, merger refers to the lawful merger of two or more enterprises, under which one or more enterprises (hereinafter referred to as the "**Merged Enterprise**") transfers all the assets and liabilities to another existing or newly-established enterprise (hereinafter referred to as the "**Merging Enterprise**") for the stockholders of the merged enterprise to exchange for the equity or non-equity payment of the merging enterprise. General tax process provisions and special tax process provisions shall be applied to the merger based on different conditions.

The following general tax process provisions shall apply except it is provided otherwise in the No. 59 Circular: (i) the merging enterprise shall determine the tax base for all assets and liabilities received of the Merged Enterprise on the basis of fair value; (ii) income taxes of the merged enterprise and its shareholders shall be processed as liquidation; and (iii) the losses of the merged enterprise may not be covered through carry-over in the merging enterprise.

Where all the conditions provided in Article 5 of the No. 59 Circular are fulfilled and if the Merged Enterprise's shareholders obtain a payment of not less than 85% of its transaction payment amount at the time of the merger, or enterprises under the same controlling shareholder merge without paying consideration, the special tax process provisions shall apply to the equity payment in the transaction: (i) the tax base for the assets and liabilities of the Merged Enterprises received by the Merging Enterprise shall be determined based on the original tax base of the Merged Enterprises; (ii) relevant issues on income tax payment of the Merged Enterprises prior to the merger shall be succeeded by the Merging Enterprise; (iii) the losses of the Merged Enterprises shall be covered by the Merging Enterprise within certain limits; and (iv) the tax base for the equities of the Merging Enterprise obtained by the shareholders of the Merged Enterprise shall be determined based on the tax base for equities of the Merged Enterprises originally held by the same.

In respect of the conditions prescribed in Article 5 of the No. 59 Circular, the following items shall be included: (i) the merge has reasonable commercial purpose, and reduction, exemption or delay in tax payment is not its primary purpose; (ii) the portion of the acquired, merged or separated assets or equities conforms to the stipulations in the No. 59 Circular; (iii) the original material operating activities of the restructured assets are not changed within the consecutive 12 months after the enterprise merger; (iv) the payment amount involved in the transaction consideration of the merger conforms to the proportion stipulated in the No. 59 Circular; and (v) the original major shareholders to whom the equity payment are paid in enterprise merger may not transfer its equities obtained in the consecutive 12 months after the merger.

Value-added Tax

General Provisions

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was latest amended on 5 November 2008 and effective from 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax ("**VAT**"). VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or import of goods except otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the Provisional Regulations on VAT of the PRC and is 17% for those providing processing services, repairs and replacement services.

Special Provisions

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Policies of Value-added Tax on Renewable Resources (財政部、國家稅務總局關於再生資源增值稅政策的通知) (the "**No. 157 Circular**"), which was promulgated on 9 December 2008 and effective from 1 January 2009, ordinary value-added taxpayers are entitled to tax refund if the following requirements are simultaneously met before the end of 2010: (i) the taxpayers that shall file a record with the relevant authorities in accordance with Articles 7 and 8 of the Administrative Measures for the Renewable Resource Callback (Order of MOFCOM [2007] No. 8) have filed a record in accordance with the relevant provisions; (ii) with fixed places for storing, sorting and processing the renewable resources; (iii) sales volume of renewable resources which has been settled by the financial institutions shall account for not less than 80% of the whole sales volume of renewable resources; and (iv) without any criminal punishment or administrative punishment (excluding the cautions and fines) from the industrial and commercial authorities, the authorities of commerce, environment protection, taxation and public security at or above county level because of the violation of the Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法), the Environment Protection Law of the PRC, the Law of the PRC on the Administration of Tax Collection, the Invoice Administration Law of the PRC and the Administrative Measures for the Renewable Resource Callback since 1 January 2007.

For taxpayers qualified for tax refund, a refund with a proportion of 70% of the VAT on their renewable resources sales was made in 2009; and a refund with a proportion of 50% of the VAT on their renewable resources sales shall be made in 2010.

In accordance with the Notice on Adjustment of the Tax Refund Rate for Exported Goods (關於調整出口貨物退稅率的通知) (the "**No. 222 Notice**") jointly issued by the Ministry of Finance and the State Administration of Taxation on 13 October 2003, effective from 1 January 2004, tax refund on the export of pulp and paperboard was eliminated. The elimination of the tax refund is intended to discourage the export of paper and paperboard due to increased domestic demand for such products. The elimination of tax refund also encouraged manufacturers of such products to make domestic sales. The increase in domestic supply may result in a reduction of imports of such products. According to the Notice on Lowering Certain Product Export Tax Rebates (關於調低部分商品出口退稅率的通知) (the "**No. 90 Notice**") issued jointly by the Ministry of Finance and the State Administration of Taxation on 19 June, 2007, effective as of 1 July 2007, the tax refund rate on paper products was reduced from 13% to 5%. However, as part of the PRC's response to financial crisis, the tax refund rate of some of the paper products such as hand-made paper and paperboard, paper or paperboard made boxes, pouches, wallets and writing compendiums, etc were increased to 13% under the Notice of on Increasing Certain Light Textile and Electronic Information Products Export Tax Rebates (關於提高輕紡、電子資訊等商品出口退稅率的通知) (the "**No. 43 Notice**") issued jointly by the Ministry of Finance and the State Administration of Taxation on 27 March 2009.

Tariffs on imported high-grade paper production equipment have been reduced in recent years to facilitate the introduction of new technology to expand capacity and increase efficiency. Foreign-invested enterprises meeting certain qualifications and regulatory requirements are entitled to tariff-free treatment on production equipment imported for self-use.

URBAN MAINTENANCE AND CONSTRUCTION TAX AND EDUCATION SURCHARGE

According to 國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知 (Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals*), which was promulgated and took effect as of 18 October 2010, starting from 1 December 2010, 中華人民共和國城市維護建設稅暫行條例 (Tentative Regulations on Urban Maintenance and Construction Tax of the PRC*) promulgated in 1985 and 徵收教育費附加的暫行規定 (Tentative Provisions on the Collection of Education Surtax*) promulgated in 1986 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to Tentative Regulations on Urban Maintenance and Construction Tax of the PRC, which was promulgated on 8 February 1985 and became effective from 1985, and 國家稅務總局關於城市維護建設稅徵收問題的通知 (Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax*), which was promulgated on 12 March 1994 and with effect from 1 January 1994, any organization or individual liable to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. The rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with Tentative Provisions on the Collection of Education Surtax, which was first promulgated in 1986, last revised on 20 August 2005 and took effect on 1 October 2005, all institutions and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay education surtax in accordance with these Provisions. The education surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each institution or individual, and the surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

FOREIGN CURRENCY EXCHANGE

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (the "**Foreign Exchange Administration Rules**"). It was promulgated by the State Council of the PRC (中華人民共和國國務院) on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In comparison, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and prior approval or filing with the relevant governmental authorities (if necessary). Furthermore, the State shall administer foreign debts in a proportionate manner. Foreign debts borrowing shall be handled in accordance with relevant provisions of the State and registered as foreign debts at the relevant foreign exchange administrative authority.

DIVIDEND DISTRIBUTION

Before the promulgation of the New Tax Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises include the Wholly Foreign-owned Enterprise Law, the FIE Tax Law and their respective Implementation Regulations.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations and dividends paid to its foreign investors are exempt from withholding tax. However, the exemption provision in relation to withholding tax has been revoked by the New Tax Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises.

The PRC and the government of Hong Kong signed Arrangement between the Mainland of the PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the "**Arrangement**"). According to the Arrangement, a 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. A 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated and became effective on 2 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement can be entitled to a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (a) Such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) Equity interests and voting shares of the PRC resident company directly owned by such resident reaches a specified percentage; and (c) The equity interests of the PRC resident company directly owned by such fiscal resident, at any time during the twelve consecutive months prior to the receipt of the dividends, reaches a certain percentage specified in the tax agreement.

In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) ("**Administrative Measures**") which came into force on 1 October 2009, where a non-resident enterprise(as defined under the PRC tax laws) that receives dividends from PRC resident enterprises intends to enjoy the favourable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise shall not enjoy the favourable tax treatments provided in the tax treaties.

ENVIRONMENTAL PROTECTION

General Provisions

The PRC has implemented strict environmental protection regulations on the papermaking and printing industry. Papermakers and printing operator should comply with the relevant environmental protection regulations for various papermaking and printing phases, including the construction of production project, completion of the construction, daily operation, manufacture and printing.

According to 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) promulgated on 26 December 1989 by 第七屆全國人民代表大會常務委員會 (the Standing Committee of the Seventh National People's Congress) ("**NPC Standing Committee**") and the regulations of the State Council issued thereunder, the Law of the PRC on the Prevention and Treatment of Water Pollution (中華人民共和國水污染防治法) approved by the NPC Standing

Committee on 11 May 1984, amended on 28 February 2008 and implemented on 1 June 2008, the State Environmental Protection Bureau of the PRC implements unified supervision and management of national environmental protection. The environmental protection bureaus at or above the county level are responsible for the environmental administration within their respective jurisdictions. According to the national environmental laws, the Ministry of Environmental Protection (環境保護部) sets national standards for pollutants emission and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two standards.

Enterprises that cause pollution and other public hazards shall adopt environmental protection measures in their plans and establish a system for taking responsibility for environmental protection. Such enterprises shall also take effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and radiation generated in the course of production, construction or other activities. Enterprises discharging pollutants shall apply for registration in accordance with the requirements stipulated by the administration department of environmental protection of the State Council. Enterprises discharging pollutants in excess of the national or local prescribed standards shall pay a free for excessive discharge according to state provisions.

The PRC government may, according to the circumstances and the extent of the pollution, impose administrative penalties of different types and degrees on the violators (enterprises or individuals) of the relevant national environmental laws. Such penalties include warnings, fines, orders to make rectification within a specific period, orders to suspend production, orders to reinstall and use pollution treatment facilities that have been dismantled or left idle without prior approval, administrative sanctions on relevant responsible personnel and orders to close the business. The PRC government may also impose fines together with any of the abovementioned administrative penalties. The enterprises or individuals that have caused environmental hazards may be responsible to compensate the victim, and depending on the seriousness of the case, the personnel directly responsible may be investigated for criminal liability.

On 26 December 2009, the Standing Committee of the National People's Congress of the PRC promulgated 中華人民共和國侵權責任法 (Tort Liability Law of the PRC*), which came into effect on 1 July 2010. The Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by environmental pollution, irrespective of whether they have breached national environmental protection regulations. The party that discharged the polluting substance bears the evidentiary burden of demonstrating that it is not liable for the harm in accordance with relevant provisions of the law, or that there is no causative link between its conduct and the harm caused to the victim. The law also provides that where the relevant environmental pollution was the fault of a third party, the person suffering harm as a consequence can claim compensation from either the third party itself or the party which actually discharged the polluting substance, with the polluter able to recover any damages paid to the victim from the third party if it can demonstrate that the environmental pollution was the third party's fault.

Special Provisions

Environmental Impact Appraisal and Acceptance checks for construction of environmental protection facilities

On 29 November 1998, the State Council promulgated Regulations on Environmental Protection Management for the Construction Project (建設項目環境保護管理條例). On 28 October 2002, the NPC Standing Committee approved 中華人民共和國環境影響評價法 (Law of the PRC on Appraising of Environmental Impacts*) which became effective on 1 September 2003. According to such laws and regulations, the PRC Government has set up a system to appraise the environmental impact from project construction, and classify and administer the environmental impact appraisals in accordance with the degree of the environmental impact. For any project the construction of which may have a material impact on the environment, an environmental impact report which thoroughly appraises the environmental impact is required; for any project which may have a slight impact on the environment, an environmental impact statement analysing or appraising the specific environmental impact is required; and for any project which may have minimal impact on the environment, an environmental impact appraisal is not required but filing an environmental impact registration form is required. The construction unit must submit the aforesaid environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval. For any enterprise which fails to submit the aforesaid environmental impact appraisal documents according to the PRC laws and regulations or if the documents are not approved after examination by the relevant administrative departments, the departments responsible for approving the relevant project shall not approve such project and the enterprise shall not commence the construction of the project.

In addition to the environmental appraisal before the commencement of the construction project, pursuant to 建設項目環境保護管理條例 (Regulations on Environmental Protection Management for the Construction Project*), the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of construction of environmental protection facilities that are required for the said construction project. Besides, acceptance checks for completion of construction of environmental protection facilities shall be conducted simultaneously with the acceptance checks for completion of construction of the main body project. For construction projects that are built in phases, start production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities shall be conducted in phases.

Import of Solid Wastes That Could Be Used As Raw Materials

According to 廢物進口環境保護管理暫行規定 (Interim Provisions on Environmental Protection Management for the Import of Wastes*), which was promulgated by six authorities including the State Administration of Environmental Protection, the Ministry of Foreign Trade and Economic Cooperation, the State Administration of Customs, the State Administration of Industry and Commerce and the State Administration for the Inspection of Commodities Imported and Exported on 1 March 1996 and became effective on 1 April 1996, approval from the State Administration of Environmental Protection shall be obtained for the import of wastes which are restricted from import but can be used as raw material under the catalogue attached to the Interim Provisions on Environmental Protection Management for the Import of Wastes (the "**Catalogue of Wastes Restricted from Import (1996)**"). Besides, the Customs shall conduct inspection on wastes prescribed in the Catalogue of Wastes Restricted from Import (1996) and handle custom clearance formalities therefor on the strength of the certificate of approval for the import of wastes issued by the State Administration Of Environmental Protection and the certificate of up to standard issued by the agencies conducting import and export commodity inspection at the relevant ports. Furthermore, wastes to be imported shall be subject to pre-shipment inspection by the PRC commodity inspection agencies or commodity agencies that are designated or admitted by the State Administration for the commodity inspection and the shipment is not allowed unless the commodities are concluded as up to standard upon inspection.

Pursuant to the Announcement on the Introduction of New Licenses For the Import of Solid Wastes That Could Be Used as Raw Materials (關於啟用新版可用作原料的固體廢物進口許可證的公告) that was promulgated jointly by the State Administration of Environmental Protection, the State Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on 8 October 2005 and became effective on the same day, the State Administration of Environmental Protection has introduced new license for the import of solid wastes approved automatically from import which can be used as raw materials and of those restricted from import though can also be used as raw materials since 10 October 2005, and it has not since then issued any certificate of approval for the import of relevant wastes on. All of the old certificates of approval for the import of wastes ceased to be in force from 1 April 2006 and new licenses for the import of prescribed wastes were only effective for one year during which they are granted. Where new licenses shall be kept in use beyond one year as required by special situations, they will expire no later than 31 March of the following year.

In accordance with 關於進口可用作原料的固體廢物申請事項的公告 (Announcement on The Application of Licenses For The Import of Solid Wastes That Can Be Used As Raw Materials*), which was promulgated by the State Administration of Environmental Protection on 23 August 2007 and became effective on 1 October 2007, any one to apply for the license for the import of solid wastes approved automatically from import that can be used as raw materials shall file an application with the Registration and Management Centre for the import of wastes under the State Administration of Environmental Protection (the "**Registration Centre**"). And the license for the import of solid wastes approved automatically from import that can be used as raw materials which is issued by the State Administration of Environmental Protection when it is satisfied with the application upon examination thereof shall be sent to the unit making exploitation of wastes in accordance with its registered address on its business license by the Registration Centre by post. In comparison, any one to apply for the license for the import of solid wastes restricted from import that can be used as raw materials shall file an application with the Environmental Protection Authority in a prefecture-level city or in a municipal-level city. The Provincial Environmental Protection Authority shall produce lists of applications and send them to the Registration Center in one time by post or by other means after applications have been examined by both municipal and provincial Environmental Protection Authority which shall issue their opinions thereon separately. The Registration Centre will not accept any application directly filed by units or individuals other than the Provincial Environmental Protection Authorities. The license for the import of solid wastes restricted from import that can be used as raw materials which is issued by the State Administration of Environmental Protection when it is satisfied with the application upon examination thereof shall be sent to the provincial Environmental Authority having jurisdiction over the unit as the applicant and making exploitation of wastes by the Registration Centre by post. And the relevant provincial Environmental Authority shall grant the license to the unit making exploitation of wastes upon receipt thereof.

According to 關於調整進口廢物管理目錄的公告 (Announcement on the Adjustment of the Managerial Catalogue of the Import Wastes*), which was promulgated jointly by the MEP, MOFCOM, the National Development and Reform Commission, the State Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine on 3 July 2009 and became effective from 1 August 2009, recycled unbleached kraft papers, corrugated papers or paper boards (including the scrap ones) (the customs commodity code of which is 4707100000), recycled bleached papers and paperboards manufactured from chemical wood pulp and without body staining (including the scrap ones) (the customs commodity code of which is 4707200000) and recycled papers and paper boards made from mechanical wood pulp such as waste paper, magazines and other similar publications (including the scrap ones) (the customs commodity code of which is 4707300000) are prescribed in the catalogue of solid waste approved automatically from import which can be used as raw materials while other recycled papers or paperboards including unsorted scrap materials (the customs commodity code of which is 4707900090) are included in the catalogue of solid waste restricted from import which can be used as raw materials.

The discharge, disposal and transfer of hazardous waste

According to the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (中華人民共和國固體廢物污染環境防治法), which was promulgated on 29 December 2004 and became effective from 1 April 2005, an entity discharging hazardous wastes shall, pursuant to state provisions, work out a plan for managing hazardous wastes, and declare the types, production quantity, flow direction, storage, treatment and other relevant materials to the environmental protection departments of the local people's governments at or above the county level. Furthermore, the entities discharging, collecting, storing, transporting, using or treating hazardous wastes shall work out measures for keeping away and prepare counter plans against accidents, report them to the environmental protection administrative department of the local government at or above the county level for archival filing; and the environmental protection administrative department shall carry out the inspection on it. An entity that discharges hazardous wastes shall dispose hazardous wastes according to relevant provisions of the State, and shall not dump or pile up them without approval.

Whoever transfers hazardous wastes shall, according to relevant state regulations, fill in duplicate forms for transferring hazardous wastes and apply to the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved out, which can approve the transfer of the said hazardous wastes after consulting and obtaining permission from the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved in. No transfer may be conducted until it is approved. Where it is necessary to transfer hazardous wastes through administrative areas other than the areas where the hazardous waste is to be moved out or in, the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to be moved out shall timely notify the environmental protection administrative departments of the local people's governments at or above the level of city where the hazardous waste is to pass through.

Discharge of Sewage

As required in 中華人民共和國環境保護法 (Environmental Protection Law of the PRC*) promulgated on 26 December 1989 by the Standing Committee of the Seventh National People's Congress, enterprises discharging any pollutants in their daily operation and manufacturing shall observe the national discharge standards which are regulated by the former SEPA. In accordance with the aforesaid law, the MEP has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises. Since paper manufacturing and printing enterprises discharge pollutants in their daily operations, they are required to observe the pollutants discharge standards as promulgated and amended by MEP from time to time.

According to 中華人民共和國水污染防治法 (Law on the Prevention and Control of Water Pollution of the PRC*), as amended by the Standing Committee on 28 February 2008, and 中華人民共和國水污染防治法實施細則 (Regulations on the Implementation of the Law on the Prevention and Control of Water Pollution*) as promulgated by the State Council on 20 March 2000, enterprises which directly or indirectly discharge industrial waste water or medical sewage into water are required to obtain a Pollutants Discharge Permit. The Pollutants Discharge Permit is issued to enterprises which discharge pollutants within the regulated discharge amount, and the Provisional Pollutants Discharge Permit is issued to enterprises which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount within a certain time limit. Since paper manufacturing and printing enterprises discharge pollutants to the water in the course of production, they are required to apply for the Pollutants Discharge Permit or the Provisional Pollutants Discharge Permit as required by the aforesaid regulations.

Under 污染源監測管理辦法 (Measures on Pollution Sources Monitoring*), which was promulgated on and effective from 1 November 1999, enterprises discharging pollutants are subject to supervision of the pollution sources in their daily operation. According to the business nature of such enterprises, the requirements of the environmental management, the class of the discharged pollutants and the national pollutants discharge standards, the local environmental protection authorities will supervise the enterprises on their discharge outlets of pollutants and pollutants treatment facilities regularly. Since paper manufacturing and printing enterprises discharge sewage in the course of production, they are subject to the aforesaid supervision of pollution sources.

On 25 June 2008, the former SEPA and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC issued Standards for the Discharge of Water Pollutant for the Pulp and Paper Making Industry (制漿造紙工業水污染物排放標準) which came into force from 1 August 2008 and sets stricter standards for the discharge of water pollutant for the paper-making industry.

Water-Drawing

According to 中國人民共和國水法 (Water Law of the PRC*) which was promulgated by the Standing Committee of the Ninth National People's Congress on 29 August 2002, and took effect on 1 October 2002 and 取水許可和水資源費徵收管理條例 (Regulation on the Administration of the Water Drawing Permit and the Levy of Water Resource Fees*) which was promulgated by the State Council on 21 February, 2006 and took effect on 15 April 2006, any enterprises and persons drawing water from rivers, lakes or underground shall apply to the water administrative departments or the drainage management departments for Water-drawing Permit and pay the water resource fees in order to obtain the water-drawing right in accordance with the national water-drawing permit system and the water resource fee system. The water administrative departments, finance departments and pricing control departments at the county level or above are responsible for collection, supervision and management of the water resource fee. Since paper making enterprises use a large amount of water in the course of production, such enterprises are required to apply for the Water-drawing Permit and pay the water resource fees in accordance with the aforesaid laws.

Security and Protection of the Radioisotope and Radioactive Ray Devices

As the paper machines of Yong Fa Paper has installed certain devices which are used to detect and monitor the thickness, humidity and other factors that determine the specifications of the papers and these devices are radioactive ray devices, Yong Fa Paper has obtained relevant license as required by the Regulations on Security and Protection of the Radioisotope and Radioactive Ray Devices (放射性同位素與射線裝置安全與防護條例), which was promulgated on 14 September 2005 and effective from 1 December 2005, the state carries out the administration on radioactive source and radioactive ray devices by imposing a classification. The radioactive source is classified into classes I, II, III, IV and V, and the radioactive ray devices are classified into classes I, II and III in accordance to the potential hazards of these radioactive source and these radioactive ray devices to the human heath and environment. Furthermore, the issuance of licenses to entities that manufacture radioisotope, sell and use class I radioactive source, or sell and use class I radioactive ray devices, shall be examined and approved by the competent environment protection department under the State Council. The issuance of licenses to entities other than those abovementioned shall be examined and approved by the competent environment departments under the relevant provincial government, or by the Central Government in the case of autonomous regions or municipalities.

Collection of Sewage Charges

Our Group's PRC subsidiaries discharge pollutants into the atmosphere and water bodies during their ordinary business activities. During the Track Record Period, approximately RMB0.5 million, RMB0.5 million and RMB0.6 million was paid by the Group as sewage charges. According to the Regulations on the Collection and Use of Sewage Charges (排污費徵收使用管理條例), which was promulgated on 2 January 2003 and effective from 1 July 2003, where pollutants are discharged into the atmosphere or the ocean, the polluter shall pay sewage charges according to the types and number of pollutants discharged pursuant to the Law on the Prevention and Control of Atmospheric Pollution or the Marine Environmental Protection Law; where pollutants are discharged into water bodies, the polluter shall pay sewage charges in accordance with the types and number of pollutants discharged pursuant to the Law on the Prevention and Control of Water Pollution. If pollutants discharged into water bodies exceed the national or local discharge standards, the number of sewage charges to be paid shall be doubled in accordance with the types and number of pollutants discharged. However, anyone who discharges sewage to the centralised urban sewage treatment facilities and pay fees for sewage treatment are not required to pay any sewage charges once again. Where there are no storage building or disposal facilities and sites for industrial solid waste, or where the storage or disposal facilities and sites for industrial solid waste fail to meet environmental protection standards, the sewage charges shall be paid in accordance with the type and number of pollutants discharged pursuant to the Law on the Prevention and Control of Solid Waste Pollution; where the landfill disposal of hazardous waste fails to comply with state regulations, sewage charges shall be paid in accordance with the types and number of hazardous wastes. Anyone who produces environmental noise pollution exceeding the national noise standards shall pay sewage charges in accordance with the sound level of excessive noise emission pursuant to the Law on the Environmental Prevention and Control of Noise Pollution. Furthermore, in accordance with the Regulations on the Collection and Use of Sewage Charges, polluters who paid sewage charges shall not be exempted from the liability of the pollution, making compensation relating to the pollution made and assuming liabilities under other laws and administrative regulations.

SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

China has improved its social security policy and established a system of laws and regulations in that regard. In recent years, China successively promulgated 中華人民共和國勞動法 (Labour Law of PRC*), 中華人民共和國勞動合同法 (Labour Contract Law of PRC*), 社會保險費徵繳暫行條例 (Interim Regulations on the Collection and Payment of Social Insurance Premiums*), 工傷保險條例 (Regulations on Work Injury Insurance*), 失業保險條例 (Regulations on Unemployment Insurance*), 企業職工生育保險試行辦法 (Trial Measures for Maternity Insurance of the Staff and Workers in Enterprises*) and many other regulations. According to the aforesaid laws and regulations, social insurance as core part of PRC social security system is composed of five parts: pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance (details of which vary with the legal requirements of different regions). An employer is obligated to pay its social insurance premiums and to withhold and pay its employees' portions to the relevant administrative authorities.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and will be effective from 1 July 2011, employees shall participate in basic pension insurance and basic medical insurance schemes. Basic pension and medical insurance contributions shall be paid by both employers and employees. Employees shall participate in work-related injury insurance and maternity insurance schemes. Work-related injury insurance and maternity insurance contributions shall be paid by employers rather than employees.

Pursuant to the Social Insurance Law of the PRC, if an employer fails to pay work-related injury insurance contributions in accordance with the law, it shall pay work-related injury insurance benefits in the case of a work-related injury accident. If the employer fails to make such payment, the benefits shall first be reimbursed by the work-related injury insurance fund. Work-related injury insurance benefits reimbursed by the work-related injury insurance fund shall be repaid by the employer. If the employer fails to make repayment, social insurance agencies may recover such benefits from the employer in accordance with the law.

Furthermore, as to unemployment insurance, employers shall provide unemployed individuals with certification of expiry or termination of their employment in a timely manner, and within 15 days of such expiry or termination, inform social insurance agencies of the list of the unemployed individuals. Unemployed individuals shall undertake the procedures for unemployment registration with the designated public employment service institutions in a timely manner by producing the certification of expiry or termination of their employment issued by their former employers. The period for receiving unemployment insurance benefits shall be calculated from the date of unemployment registration.

An employer shall register with the local social insurance agency in accordance with the provisions of the Social Insurance Law of the PRC. Moreover, an employer shall declare and make social insurance contributions in full and on time. Except for mandatory exceptions such as force majeure, social insurance may not be paid late, reduced or be exempted. If an employer fails to report the social insurance premium payable in accordance with the relevant regulations, the social insurance agency shall provisionally set the amount payable at 110% of the premium paid in the previous month. Once the employer has retroactively undertaken the reporting procedures, the social insurance agency shall settle the amount in accordance with the relevant regulations. Where an employer fails to make social insurance contributions in full and on time, the social insurance agency may order rectification within a specified time limit. If the employer fails to rectify within the specified time limit, the social insurance agency may enquire with the relevant banks and financial institutions in which the employer has an account in, and may apply with the relevant administrative department above county level to allocate and transfer the unpaid social insurance contributions and notify the relevant banks or other financial institutions in writing to allocate and transfer the unpaid social insurance contributions. Where the balance in the employer's bank account is less than the overdue social insurance contributions, the social insurance agency may request the employer to provide a guarantee and sign a social insurance payment agreement for the delayed payment. If the employer does not make the social insurance contributions within the specified time limit and fail to provide a guarantee with respect to the same, the social insurance agency may request the people's court to seize the property of the employer (equivalent in value to the unpaid overdue social insurance contributions), and collect the overdue social insurance contributions from the proceeds obtained from the auction of such property.

In addition, pursuant to 住房公積金管理條例 (Administrative Regulations on Housing Provision Fund*) which was promulgated on 3 April 1999 and revised on 24 March 2002, enterprises are required to pay housing provision fund for their employees. The enterprises shall register with the relevant housing provision fund management center within 30 days from the date of establishment, and open housing provision fund accounts with designated bank for their employees within 20 days from the date of the registration with the verified documents of the housing provision fund management center. Where an enterprise, in violation of the provisions of the Regulations, fails to make the payment and deposit registration of housing provision fund or fails to undergo the procedure for its workers and staff to open the housing provision fund account, the housing provision fund management center shall order it to be undertaken within a specified time limit; where it is not undertaken by the expiration of the specified time limit, a fine of not less than RMB10,000. Where an enterprise, in violation of the provisions of the Regulations, fails to pay or pays all or any of the housing provision fund by the expiration of the time limit, the housing provision fund management center shall order it to be paid and deposited within a specified time limit; where it is not paid and deposited by the expiration of the specified time limit, compulsory enforcement by the people's court may be applied.

LABOUR CONTRACT AND OCCUPATIONAL PROTECTION

Effective as of 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labour under 中華人民共和國勞動合同法 (Labour Contract Law of the PRC*) (the "**Labour Contract Law**"). Enterprises and institutions are forbidden to force the labour to work beyond the time limit and the employers shall pay labour for overtime work in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the laborers timely. According to the Labour Law of the PRC (中華人民共和國勞動法) effective as of 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labour of work place safety and sanitation. Work place safety and sanitation facilities shall comply with national standards. The enterprises and institutions shall provide labor with work place safety and sanitation conditions which are in compliance with national stipulations and relevant articles of labour protection.

Pursuant to 中華人民共和國職業病防治法 (Law of the PRC on Prevention and Control of Occupational Diseases*), which was adopted by the Ninth Standing Committee of the National People's Congress on 27 October 2001 and became effective on 1 May 2002, for construction projects, including projects to be constructed, expanded and reconstructed, and projects for technical renovation and introduction, which may produce occupational diseases hazards, the unit responsible for the construction project shall, during the period of feasibility study, submit to the public health administration department a preliminary assessment report on the hazards. The said department shall, within 30 days from the date of the reports received, make a decision upon examination and inform the unit of the decision in writing. Where a unit fails to submit such a report to or obtain approval by the public health administration department after examination of the report, the authority concerned may not grant approval to the construction project. And before the construction project is completed for inspection and acceptance, the construction unit shall assess the effect of the control of occupational disease hazards when the project is completed and ready for inspection and acceptance. The facilities for prevention of occupational diseases may be put into formal operation and use only after they pass the inspection by the public health administration department.

PRODUCTION SAFETY

In accordance with the 中華人民共和國安全生產法 (PRC Production Safety Law*) (the "**Production Safety Law**") which was adopted by the Ninth Standing Committee of the National People's Congress on 29 June 2002 and took effect on 1 November 2002 enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to their employees regarding production safety. The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipments shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipments that meet the national standards or industrial standards to their employees thereof, supervise and educate them to use these equipments according to the prescribed rules.

Pursuant to 特種設備安全監察條例 (Regulations on Safety Supervision of Special Equipment*), promulgated by the State Council of the PRC on 11 March 2003 and effective as of 1 June 2003 (amended on 14 January 2009 and effective from 1 May 2009), “special equipment” in the regulations refers to boilers, pressure vehicles (including gas cylinders), pressure pipelines, elevators, lifting alliances yard (factory) special motor vehicles, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by the Regulations on Safety Supervision of Special Equipment, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position on the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators, lifting appliances, passenger ropeways and large amusement devices shall not engage in corresponding operation or management until they have passed the examination organised by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment.

OVERVIEW

We are principally engaged in the production of paper-based packaging products and corrugated medium paper as well as recycling waste paper, through our six operating subsidiaries established in the PRC, namely, Yong Fa Paper, Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai), Zheng Ye Alliance Packaging, Zhong Tang Recycling and Zheng Ye Packaging (He Fei).

Prior to the Listing, our Group underwent the Reorganisation, the major steps of which are summaries below:

(a) On 15 July 2010, Yong Fa Paper acquired 40% and 60% of the equity interest of Zhong Tang Recycling from Mr. Hu Hanchao, an executive Director and Zheng Ye Group respectively by reference to the net assets value at the consideration of RMB523,000 and RMB785,000, respectively. Since then, Zhong Tang Recycling has become a wholly-owned subsidiary of Yong Fa Paper.

(b) On 18 August 2010, Yong Fa Paper and Zhong Tang Shi Ye entered into a merger agreement (合併協議) for the merger by absorption of Zhong Tang Shi Ye by Yong Fa Paper. As Yong Fa Paper and Zhong Tang Shi Ye were both wholly owned by Zheng Ye International immediately prior to completion of the merger by absorption, no consideration was paid by either party for the merger as it was a merger by absorption between two wholly owned subsidiaries of Zheng Ye International. Following completion of the necessary procedures and notification requirements, the relevant PRC authorities gave their final approval to the merger by absorption on 14 October 2010 and Zhong Tang Shi Ye was de-registered on 28 October 2010. The merger by absorption became effective on 28 October 2010 upon issuance of the fresh business licence of Yong Fa Paper and as a result of the merger by absorption, Yong Fa Paper (as the surviving company after the merger by absorption) succeeds to the entire assets, business, rights as creditors, interests, rights, debts, liabilities and obligations of Zhong Tang Shi Ye in accordance with the merger agreement (合併協議) and the Company Law of the PRC. As advised by our legal advisers as to PRC law, our Directors confirmed that the de-registration of Zhong Tang Shi Ye had not resulted in any liability or obligation being imposed against any Director or our senior management.

(c) On 21 September 2010, Zheng Ye International acquired 51% of the equity interest of Zheng Ye Alliance Packaging (equivalent to RMB5,100,000) from Zheng Ye Group at a consideration of RMB5,100,000 equivalent to the amount of the registered capital transferred. Since then, Zheng Ye Alliance Packaging has become a wholly-owned subsidiary of Zheng Ye International.

(d) (i) Zheng Ye (BVI) was incorporated on 5 July 2010 in BVI as a BVI business company with 50,000 authorised shares of US$1.00 each.

(ii) On 30 September 2010, an aggregate of 1,000 shares of US$1.00 each were allotted and issued as fully paid at par by Zheng Ye (BVI), as to 510 shares to Hu Zheng Investment, 250 shares to Hu Hancheng Investment, 200 shares to Hu Hanchao Investment and 40 shares to Hu Hanxiang Investment.

(iii) On 31 January 2011, Zheng Ye (BVI) became the intermediate holding company of our Group through its acquisition of 30% and 70% of the entire issued share capital of Zheng Ye International from Mr. Hu Hanchao and Mr. Hu Zheng respectively, in consideration of and in exchange for which Zheng Ye (BVI) allotted and issued, credited as fully paid, an aggregate of 9,000 shares of US$1.00 each in its capital, at the direction of Mr. Hu Zheng and Mr. Hu Hanchao, as to 4,590 shares to Hu Zheng Investment, 2,250 shares to Hu Hancheng Investment, 1,800 shares to Hu Hanchao Investment and 360 shares to Hu Hanxiang Investment.

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

(ii) On 4 March 2011, our Company became the ultimate holding company of our Group through its acquisition of 51%, 25%, 20% and 4% of the entire issued share capital of Zheng Ye (BVI) from Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment respectively, in consideration of and in exchange for which our Company (aa) allotted and issued, credited as fully paid, an aggregate of 1,999,999 new Shares, as to 1,019,999 Shares to Hu Zheng Investment, 500,000 Shares to Hu Hancheng Investment, 400,000 Shares to Hu Hanchao Investment and 80,000 Shares to Hu Hanxiang Investment; and (bb) credited as fully paid at par one nil paid Share then held by Mr. Hu Zheng. On the same day, Mr. Hu Zheng transferred his one Share to Hu Zheng Investment at nil consideration.

OUR CORPORATE HISTORY

Our business started when our first subsidiary, Zheng Ye International, incorporated in Hong Kong in 1999, and commenced its business of waste paper trading from 2002. Seeing the growth potential in paper-packaging business, we established Zheng Ye Packaging (Zhongshan) and Yong Fa Paper in Zhongshan, Guangdong Province, the PRC in 2003 to commence the business of manufacturing of paper-based packaging products and manufacturing and sales of corrugated medium paper, respectively. Later in 2005, we expanded our production base for the manufacturing of paper-based packaging products by setting up Zheng Ye Packaging (Zhuhai) in Zhuhai, the PRC. As part of the Reorganisation Zheng Ye International acquired 51% interest of Zheng Ye Alliance Packaging from Zheng Ye Group and Yong Fa Paper acquired 100% interest in Zhong Tang Recycling from Zheng Ye Group and Mr. Hu Hanchao in 2010 and Zheng Ye Alliance Packaging and Zhong Tang Recycling became our wholly owned subsidiaries. In order to capture the business opportunities in Hefei, Anhui Province, the PRC where it is expected to become a growing hub for household appliance industry, we set up Zheng Ye Packaging (He Fei) and commenced the establishment of our new production base in Hefei in 2010.

As part of the Reorganisation and to achieve the centralization of and facilitate our paper making operation, we entered into a merger agreement with Zhong Tang Shi Ye, a company which was wholly owned by Zheng Ye International immediately prior to the completion of merger by absorption, for the merger by absorption of Zhong Tang Shi Ye by Yong Fa Paper as more particularly described in the sub-paragraph headed "Yong Fa Paper" below.

During the Track Record Period, the beneficial interests of our founders, i.e. the Hu Brothers, in our Group were 51% (Mr. Hu Zheng), 25% (Mr. Hu Hancheng), 20% (Mr. Hu Hanchao) and 4% (Mr. Hu Hanxiang) respectively. During the Track Record Period and up to the Latest Practicable Date, the Hu Brothers had not entered into any shareholders agreement among themselves in respect of any members of our Group. The Hu Brothers had been acting in concert (within the meaning of the Takeovers Code) with each other by actively co-operating with the others to obtain or consolidate control of 30% or more of the voting rights of our Group during the Track Record Period and will remain so prior to the Listing. After the Listing, the Hu Brothers will in their respective capacity as our Directors act and discharge their duties as our Directors in the best interests of our Company and our Shareholders as a whole.

Zhong Tang Shi Ye was principally engaged in the manufacturing of paper, paper paperboard and other paper-based products immediately prior to completion of its merger by absorption by Yong Fa Paper. Zhong Tang Shi Ye was a domestic enterprise established in the PRC on 25 December 2000 with limited liability. At the time of its establishment, Zhong Tang Shi Ye had a registered capital of RMB10.0 million, which was owned as to 70% by Zheng Ye Group and 30% by Zhongshan City State-Operated Zhongshan Sugar Factory, being an Independent Third Party. According to the capital verification report issued by 中山市成諾會計師事務所 (Zhongshan Promise Certified Public Accountants*) dated 25 December 2000, the initial registered capital of RMB10.0 million was fully paid up by Zheng Ye Group as to RMB7.0 million and by Zhongshan City State-Operated Zhongshan Sugar Factory as to RMB3.0 million, in proportion to their respective percentage equity holding in Zhong Tang Shi Ye. On 15 December 2005, Zhongshan City State-Operated Zhongshan Sugar Factory entered into an equity transfer agreement with Zheng Ye Group to transfer all of its 30% equity interest in Zhong Tang Shi Ye to Zheng Ye Group or such company as designated by it by reference to the net assets value at a consideration of RMB10.0 million. Following completion of the said transfer upon issuance of the fresh business licence of Zhong Tang Shi Ye in January 2006, Zhong Tang Shi Ye became owned as to 70% by Zheng Ye Group and as to the remaining 30% by Zhong Fa Equipment. On 22 May 2006, Zhong Fa Equipment entered into an equity transfer agreement with Zheng Ye International to transfer all of its 30% equity interest in Zhong Tang Shi Ye to Zheng Ye International by reference to the net assets value at a premium of about 9% at a consideration of RMB6.0 million. Following completion of the said transfer upon issuance of the fresh business licence of Zhong Tang Shi Ye on 18 August 2006, Zhong Tang Shi Ye became owned as to 70% by Zheng Ye Group and as to the remaining 30% by Zheng Ye International. On 28 June 2010, Zheng Ye Group entered into an equity transfer agreement with Zheng Ye International to transfer all of its 70% equity interest in Zhong Tang Shi Ye by reference to the net assets value after deducting all accumulated profits at a consideration of RMB16.0 million. Following completion of the said transfer upon issuance of the fresh business licence of Zhong Tang Shi Ye on 8 September 2010 and prior to its de-registration after the merger by absorption as disclosed in sub-paragraph headed "Yong Fa Paper" below, Zhong Tang Shi Ye had been wholly owned by Zheng Ye International.

Apart from the equity interest transactions in the preceding paragraph, we set out below the detailed corporate history and shareholding changes of the members of our Group:

Yong Fa Paper

Yong Fa Paper is engaged in the manufacturing and sales of paper and paperboard. It was established on 26 November 2003 initially as a sino-foreign equity joint venture in the PRC. At the time of its establishment, Yong Fa Paper had a registered capital of HK$6.0 million, and was owned as to 90% by Zheng Ye International and as to 10% by Zhong Fa Equipment. According to the capital verification report issued by 中山通力會計師事務所有限公司 (Zhongshan Tongli Certified Public Accountants Limited Company*) dated 28 March 2004, the initial registered capital of HK$6.0 million was fully paid up by Zheng Ye International as to HK$5.4 million and by Zhong Fa Equipment as to HK$0.6 million, in proportion to their respective percentage equity holding in Yong Fa Paper.

On 30 July 2007, Yong Fa Paper increased its registered capital from HK$6.0 million to HK$20.0 million. According to the capital verification report issued by 中山同力會計師事務所有限公司 (Zhongshan Tongli Certified Public Accountants Limited Company*) dated 11 July 2007, the additional registered capital in such increase was contributed as to RMB12,276,180 (which approximated to HK$12.6 million) and RMB1,364,020 (which approximated to HK$1.4 million) in the form of contribution by the undistributed profits of Yong Fa Paper respectively by Zheng Ye International and Zhong Fa Equipment. Following the increase in capital, Yong Fa Paper remained to be 90% owned by Zheng Ye International and 10% owned by Zhong Fa Equipment.

On 8 December 2007, Zhong Fa Equipment entered into an equity transfer agreement with Zheng Ye International to transfer all of its 10% equity interest in Yong Fa Paper to Zheng Ye International by reference to the net assets value at a premium of approximately 1.8% at a consideration of HK$12.8 million. Following completion of the said transfer upon issuance of the fresh business licence of Yong Fa Paper on 7 January 2008, Yong Fa Paper became wholly owned by Zheng Ye International as a wholly foreign-owned enterprise.

As part of the Reorganisation, Yong Fa Paper and Zhong Tang Shi Ye entered into a merger agreement (合併協議) on 18 August 2010 for the merger by absorption of Zhong Tang Shi Ye by Yong Fa Paper. As Yong Fa Paper and Zhong Tang Shi Ye were both wholly owned by Zheng Ye International immediately prior to completion of the merger by absorption, no consideration was paid by either party for the merger as it was a merger by absorption between two wholly owned subsidiaries of Zheng Ye International. Following completion of the necessary procedures and notification requirements, the relevant competent authorities in the PRC granted the final approval of the merger by absorption on 14 October 2010 and Zhong Tang Shi Ye was de-registered thereafter on 28 October 2010. The merger by absorption became effective on 28 October 2010 upon issuance of the fresh business licence of Yong Fa Paper and as a result of the merger by absorption, Yong Fa Paper (as the surviving company after the merger by absorption) succeeds to the entire assets, business, rights as creditors, interests, rights, debts, liabilities and obligations of Zhong Tang Shi Ye in accordance with the merger agreement (合併協議) and the Company Law of the PRC. The purpose of the acquisition by Zheng Ye International of 70% of the equity interests in Zhong Tang Shi Ye from Zheng Ye Group followed by the subsequent merger by absorption of Zhong Tang Shi Ye by Yong Fa Paper is to minimise the costs and expenses, including tax expenses, that would otherwise be required for operating and maintaining Zhong Tang Shi Ye as a separate legal entity with minimal assets and operation and to achieve the centralization of the paper making operation and the supply of heat and electricity for the operation of our Group. As the merger by absorption is an intra-group transaction, and being eliminated, there is no material impact to our Group. As a result of the merger by absorption, Yong Fa Paper has equipped with its own utility plant for heat and electricity co-generation to support its production.

Zheng Ye Packaging (Zhongshan)

Zheng Ye Packaging (Zhongshan) is engaged in the manufacturing and operating of paper-based packaging products, packaging related business and the printing of decorative packaging products. It was established on 25 August 2003 initially as a sino-foreign equity joint venture in the PRC. At the time of its establishment, Zheng Ye Packaging (Zhongshan) had a registered capital of HK$3.0 million, and was owned as to 90% by Zheng Ye International and as to 10% by Zheng Ye Group. According to the capital verification reports issued by 中山市中信會計師事務所有限公司 (Zhongshan City Zhongxin Certified Public Accountants Co., Ltd.*) dated 15 December 2003 and 10 April 2004 respectively, the initial registered capital of HK$3.0 million was fully paid up by Zheng Ye International as to HK$2.7 million and by Zheng Ye Group as to HK$0.3 million, in proportion to their respective percentage equity holding in Zheng Ye Packaging (Zhongshan).

In May 2004, Zheng Ye Packaging (Zhongshan) increased its registered capital from HK$3.0 million to HK$12.0 million, of which, according to the capital verification reports issued by 中山同力會計師事務所有限公司 (Zhongshan Tongli Certified Public Accountants Limited Company*) dated 6 January 2005 and 26 May 2006 respectively, Zheng Ye International contributed an additional sum of HK$8.1 million and Zheng Ye Group contributed an additional sum of HK$0.9 million. Immediately after the capital increase, the percentage of equity interest in Zheng Ye Packaging (Zhongshan) of Zheng Ye International and Zheng Ye Group remained unchanged.

On 8 December 2007, Zheng Ye Group entered into an equity transfer agreement with Zheng Ye International to transfer all of its 10% equity interests in Zheng Ye Packaging (Zhongshan) to Zheng Ye International by reference to the net assets value at a premium of approximately 4.9% at a consideration of HK$10.6 million. Following completion of the said transfer upon issuance of the fresh business licence of Zheng Ye Packaging (Zhongshan) on 31 January 2008, Zheng Ye Packaging (Zhongshan) has become wholly-owned by Zheng Ye International as a wholly foreign-owned enterprise.

Zheng Ye Packaging (Zhuhai)

Zheng Ye Packaging (Zhuhai) is engaged in the manufacturing and sale of paper-based packaging products and related packaging services. It was established on 25 August 2005 initially as a sino-foreign equity joint venture in the PRC. At the time of its establishment, Zheng Ye Packaging (Zhuhai) had a registered capital of HK$10.0 million, and was owned as to 51% by Zheng Ye Group and 49% by Shing Yip (Hong Kong). According to the capital verification reports issued by 廣東恆信德律會計師事務所有限公司 (Guangdong Hengxin Delu Certified Public Accountants Company Limited*) dated 12 December 2005 and 25 April 2006 respectively, the registered capital of HK$10.0 million was fully paid up by Zheng Ye Group contributing HK$5.1 million and by Shing Yip (Hong Kong) contributing HK$4.9 million.

On 18 December 2006, Zheng Ye Group entered into an equity transfer agreement with Shing Yip (Hong Kong) pursuant to which Zheng Ye Group transferred its 51% equity interest in Zheng Ye Packaging (Zhuhai) to Shing Yip (Hong Kong) at a consideration of HK$5.1 million equivalent to the amount of the registered capital transferred. Following completion of the said transfer upon issuance of the fresh business licence of Zheng Ye Packaging (Zhuhai) on 8 March 2007, Zheng Ye Packaging (Zhuhai) has become wholly-owned by Shing Yip (Hong Kong) as a wholly foreign-owned enterprise.

In June 2008, Zheng Ye Packaging (Zhuhai) increased its registered capital from HK$10.0 million to HK$10.6 million with the additional capital contribution of HK$600,000 fully paid by Shing Yip (Hong Kong) in cash. In June 2008, Zheng Ye Packaging (Zhuhai) further increased its registered capital from HK$10.6 million to HK$12.0 million. According to the capital verification report issued by 珠海和通泰會計師事務所 (Zhuhai He Tong Tai Certified Public Accountants Firm*) dated 11 June 2008, the additional capital contributions were fully paid into Zheng Ye Packaging (Zhuhai) by Shing Yip (Hong Kong).

Zhong Tang Recycling

Zhong Tang Recycling is engaged in the procurement and wholesale of waste paper. It was established on 16 February 2001. At the time of its establishment, it had a registered capital of RMB500,000 and was owned as to 60% by Mr. Li Guang Kun and as to 40% by Mr. Liu Jian Hang, both being Independent Third Parties. According to the capital verification report issued by 中山市信誠合夥會計師事務所 (Zhongshan City Xincheng Certified Public Accountants Firm*) dated 9 February 2001, the initial registered capital of Zhong Tang Recycling was fully paid up by Mr. Li Guang Kun and Mr. Liu Jian Hang, in proportion to their respective percentage equity holding in Zhong Tang Recycling.

On 19 September 2002, Mr. Li Guang Kun entered into an equity transfer agreement with Mr. Hu Hanchao (one of our executive Directors), pursuant to which Mr. Li Guang Kun transferred his 60% equity interest in Zhong Tang Recycling to Mr. Hu Hanchao at a consideration of RMB300,000 equivalent to the amount of the registered capital transferred. Immediately after completion of the said transfer upon issuance of the fresh business licence of Zhong Tang Recycling on 27 November 2002, Zhong Tang Recycling became owned as to 60% by Mr. Hu Hanchao and 40% by Mr. Liu Jian Hang.

On 28 November 2003, both of Mr. Hu Hanchao and Mr. Liu Jian Hang entered into an equity transfer agreement with Zheng Ye Group, pursuant to which Mr. Hu Hanchao and Mr. Liu Jian Hang transferred 20% and 40% of the equity interest in Zhong Tang Recycling respectively to Zheng Ye Group at the respective consideration of RMB100,000 and RMB200,000 equivalent to the amount of the registered capital transferred. Following completion of the said transfers upon issuance of the fresh business licence of Zhong Tang Recycling on 3 December 2003, Zhong Tang Recycling was owned as to 60% by Zheng Ye Group and 40% by Mr. Hu Hanchao, of which 32% was held by Mr Hu Hanchao on trust for Mr Hu Zheng (as to 20.4%), Mr. Hu Hancheng (as to 10%) and Mr. Hu Hanxiang (as to 1.6%). We are advised by our legal advisers as to PRC law that the trust was not in violation of the PRC laws.

As part of the Reorganization, both Zheng Ye Group and Mr. Hu Hanchao entered into an equity transfer agreement dated 18 June 2010 with Yong Fa Paper pursuant to which Yong Fa Paper acquired 60% and 40% of the entire registered capital of Zhong Tang Recycling from Zheng Ye Group and Mr. Hu Hanchao respectively at the consideration of RMB785,000 and RMB523,000 respectively. Following completion of the said transfer upon issuance of the fresh business licence of Zhong Tang Recycling on 15 July 2010, Zhong Tang Recycling has become a wholly owned subsidiary of Yong Fa Paper.

Zheng Ye Alliance Packaging

Zheng Ye Alliance Packaging is engaged in the manufacturing and sale of paper-based packaging products and printing of decorative packaging products. It was established in the PRC as a sino-foreign equity joint venture on 21 August 2006 with a registered capital of RMB10.0 million which was contributed as to 49% and 51% by Zheng Ye International and Zheng Ye Group respectively in accordance with their respective percentage equity holdings in Zheng Ye Alliance Packaging.

As part of the Reorganisation, Zheng Ye Group entered into an equity transfer agreement with Zheng Ye International on 28 July 2010, pursuant to which, Zheng Ye Group transferred its 51% interest in the registered capital of Zheng Ye Alliance Packaging (equivalent to RMB5.1 million) to Zheng Ye International at a consideration of RMB5.1 million equivalent to the amount of the registered capital transferred. Following completion of the said transfer upon issuance of the fresh business licence of Zheng Ye Alliance Packaging on 21 September 2010, Zheng Ye Alliance Packaging has become a wholly-owned subsidiary of Zheng Ye International.

Zheng Ye Packaging (He Fei)

Zheng Ye Packaging (He Fei) was established by our Group with a business scope of manufacturing of paper-based packaging products and the printing of decorative packaging products. It was established in the PRC on 10 September 2010 with a registered capital of RMB10.0 million which was contributed as to 100% by Zheng Ye Packaging (Zhongshan).

Zheng Ye Packaging (Zheng Zhou)

Zheng Ye Packaging (Zheng Zhou) was established by our Group with a business scope of sales of paper-based packaging products. It was established in the PRC on 27 April 2011 with a registered capital of RMB10.0 million which was contributed as to 100% by Zheng Ye Packaging (Zhongshan).

Legality of the Reorganisation

Pursuant to 關於外國投資者併購境內企業的規定 (Regulations on the Merger with and Acquisitions of Domestic Enterprises by Foreign Investors*), which were promulgated by six PRC governmental and regulatory agencies, including MOFCOM and the China Securities Regulatory Commission, on 8 August 2006, and became effective on 8 September 2006 (the "**Merger and Acquisition Regulations**"), an offshore special purpose vehicle formed for listing purposes and controlled, directly or indirectly, by PRC companies or individuals, shall be required to obtain approval from the China Securities Regulatory Commission prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

As advised by our legal advisers as to PRC law, the foreign-invested enterprises among our subsidiaries in the PRC were all set up by way of newly establishment as foreign-invested enterprises (as opposed to formation by way of merger) before 8 September 2006 and accordingly, the Merger and Acquisition Regulations are not applicable to the establishment of these subsidiaries. In addition, our legal advisers as to PRC law also advised that, our subsidiaries in the PRC are not subject to the Merger and Acquisition Regulations as there is no such acquisition of domestic enterprises by foreign investors, as defined in the Merger and Acquisition Regulations, involved in their reorganisation and neither our Company nor any of our indirect subsidiaries in the PRC is required to obtain approvals or permits from any relevant PRC government authorities or departments (MOFCOM), China Securities Regulatory Commission, etc.) or complete any other legal procedures, or register with any other PRC government authorities or departments for the purpose of the Reorganisation and the Listing.

In addition to rules and regulations of the PRC to which our PRC subsidiaries are subject, each of Hu Brothers is required under 關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration on Domestic Residents' Fund-raising and Round-trip Investment via Overseas Special Purpose Companies*) (the "**Notice**") promulgated by SAFE on 21 October 2005 and effective as of 1 November 2005 to apply to relevant foreign exchange administration authorities for foreign exchange registration of overseas investment before they set up or control our Company and its associated overseas companies. Our legal advisers as to PRC law have confirmed that each of Hu Brothers had submitted the relevant applications to the local foreign exchange administration department as required by the Notice.

All the steps involved in the Reorganisation regarding our subsidiaries in the PRC comply with applicable laws and regulations, and all necessary approvals from PRC regulatory authorities required to implement such steps have been obtained.

Zheng Ye International and Shing Yip (Hong Kong)

Both Zheng Ye International and Shing Yip (Hong Kong) are limited liability companies incorporated in Hong Kong.

Zheng Ye International was incorporated on 5 February 1999 in Hong Kong with an authorised share capital of HK$10,000 divided into 100 shares of HK$100 each, of which two issued shares of HK$100 each were allotted and issued upon its incorporation as to one share to each of Mr. Lau Hin and Mr. Hu Zheng. The one share in Zheng Ye International registered in the name of Mr. Lau Hin was held by him upon trust as to 2%, 8%, 40% and 50% for Mr. Hu Zheng, Mr. Hu Hanxiang, Mr. Hu Hanchao and Mr. Hu Hancheng respectively until its transfer to Mr. Hu Hanchao on 31 December 2002 whereupon Mr. Hu Hanchao is holding the one share in Zheng Ye International upon trust as to 2%, 8% and 50% for Mr. Hu Zheng, Mr. Hu Hanxiang and Mr. Hu Hancheng respectively. In September 2004, Zheng Ye International issued and allotted an additional 98 new shares of HK$100 each, as to 69 shares to Mr. Hu Zheng and 29 shares to Mr. Hu Hanchao. Of the 69 new shares that were issued and allotted to Mr. Hu Zheng, 1902/6900 of which were held by Mr. Hu Zheng upon trust for Mr. Hu Hancheng. Of the 29 new shares that were issued and allotted to Mr. Hu Hanchao, 548/2900 and 392/2900 of which were held by Mr. Hu Hanchao upon trust for Mr. Hu Hancheng and Mr. Hu Hanxiang respectively. Immediately following the issue and allotment of the 98 new shares and by reason of the trusts, the 100 issued shares in the capital of Zheng Ye International were beneficially owned as to 51%, 25%, 20% and 4% by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang respectively. Pursuant to the Reorganisation, Zheng Ye International has become a wholly owned subsidiary of Zheng Ye (BVI) and an indirect wholly owned subsidiary of our Company through a share swap as more particularly described in the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" in Appendix V to this prospectus. At the time of incorporation of Zheng Ye International in 1999, companies incorporated in Hong Kong under the Companies Ordinance were required to have at least two shareholders and this statutory requirement of a minimum of two shareholders was reduced to one on 13 February 2004. In order to comply with this statutory requirement at the relevant times and to accord with the beneficial interests of the Hu Brothers in Zheng Ye International, Zheng Ye International was registered with two shareholders with the trust arrangements in place in respect of the issued shares in Zheng Ye International. As the two-shareholder structure and the trust arrangements had been implemented for almost five years since the incorporation of Zheng Ye International, they were continued to be implemented in respect of the allotment and issue of the 98 new shares of Zheng Ye International in September 2004 notwithstanding that the two-shareholder requirement was no longer applicable under the Companies Ordinance at that time. We are advised by our legal advisers as to Hong Kong law that the trust arrangements were valid under the Hong Kong law.

Zheng Ye International was initially set up to engage in waste paper trading. With a view to centralising the operations in the PRC, the paper trading operations of Zheng Ye International has in recent years been gradually taken up by our other subsidiaries, namely, Yong Fa Paper and Zhong Tang Recycling, in the PRC and Zheng Ye International has been acting as an investment holding company of our Group.

Shing Yip (Hong Kong) was incorporated on 6 May 2005 in Hong Kong with a registered share capital of HK$10,000 divided into 10,000 shares of HK$1 each, of which 10,000 issued shares of HK$1 each were allotted and issued upon its incorporation as to 5,100 shares to Mr. Hu Hancheng and 4,900 shares to Mr. Zhang Xiao Ming. The 2,600 shares in Shing Yip (Hong Kong) registered in the name of Mr. Hu Hancheng were held by him upon trust as to 200 shares, 400 shares and 2,000 shares for Mr. Hu Zheng, Mr. Hu Hanxiang and Mr. Hu Hanchao respectively. The 4,900 shares in Shing Yip (Hong Kong) registered in the name of Mr. Zhang Xiao Ming were held by him upon trust for Mr. Hu Zheng. Since February 2007, Shing Yip (Hong Kong) has become a wholly owned subsidiary of Zheng Ye International when Zheng Ye International acquired the then entire issue share capital of Shing Yip (Hong Kong) from Mr. Hu Hancheng and Mr. Zhang Xiao Ming. As the two-shareholder structure and trust arrangements had been implemented by the Hu Brothers for almost five years in relation to Zheng Ye International, the Hu Brothers were content with such structure. Shing Yip (Hong Kong) was therefore incorporated with two shareholders and with the said trust arrangements in place notwithstanding that the two-shareholder requirement was no longer applicable under the Companies Ordinance at that time. We are advised by our legal advisers as to Hong Kong law that the trust arrangements were valid under the Hong Kong law.

Shing Yip (Hong Kong) acts as an investment holding company of our Group.

Zheng Ye (BVI)

Zheng Ye (BVI) was incorporated on 5 July 2010 in BVI as a BVI business company with 50,000 authorised shares of US$1.00 each as the intermediary holding company of our Group.

On 30 September 2010, an aggregate of 1,000 shares of US$1.00 each were allotted and issued as fully paid at par by Zheng Ye (BVI), as to 510 shares to Hu Zheng Investment, 250 shares to Hu Hancheng Investment, 200 shares to Hu Hanchao Investment and 40 shares to Hu Hanxiang Investment.

On 31 January 2011, Zheng Ye (BVI) became the intermediate holding company of our Group through its acquisition of 30% and 70% of the entire issued share capital of Zheng Ye International from Mr. Hu Hanchao and Mr. Hu Zheng respectively, in consideration of and in exchange for which Zheng Ye (BVI) allotted and issued, credit as fully paid, an aggregate of 9,000 shares of US$1.00 each in its capital, at the direction of Mr. Hu Zheng and Mr. Hu Hanchao, as to 4,590 shares to Hu Zheng Investment, 2,250 shares to Hu Hancheng Investment, 1,800 shares to Hu Hanchao Investment and 360 shares to Hu Hanxiang Investment.

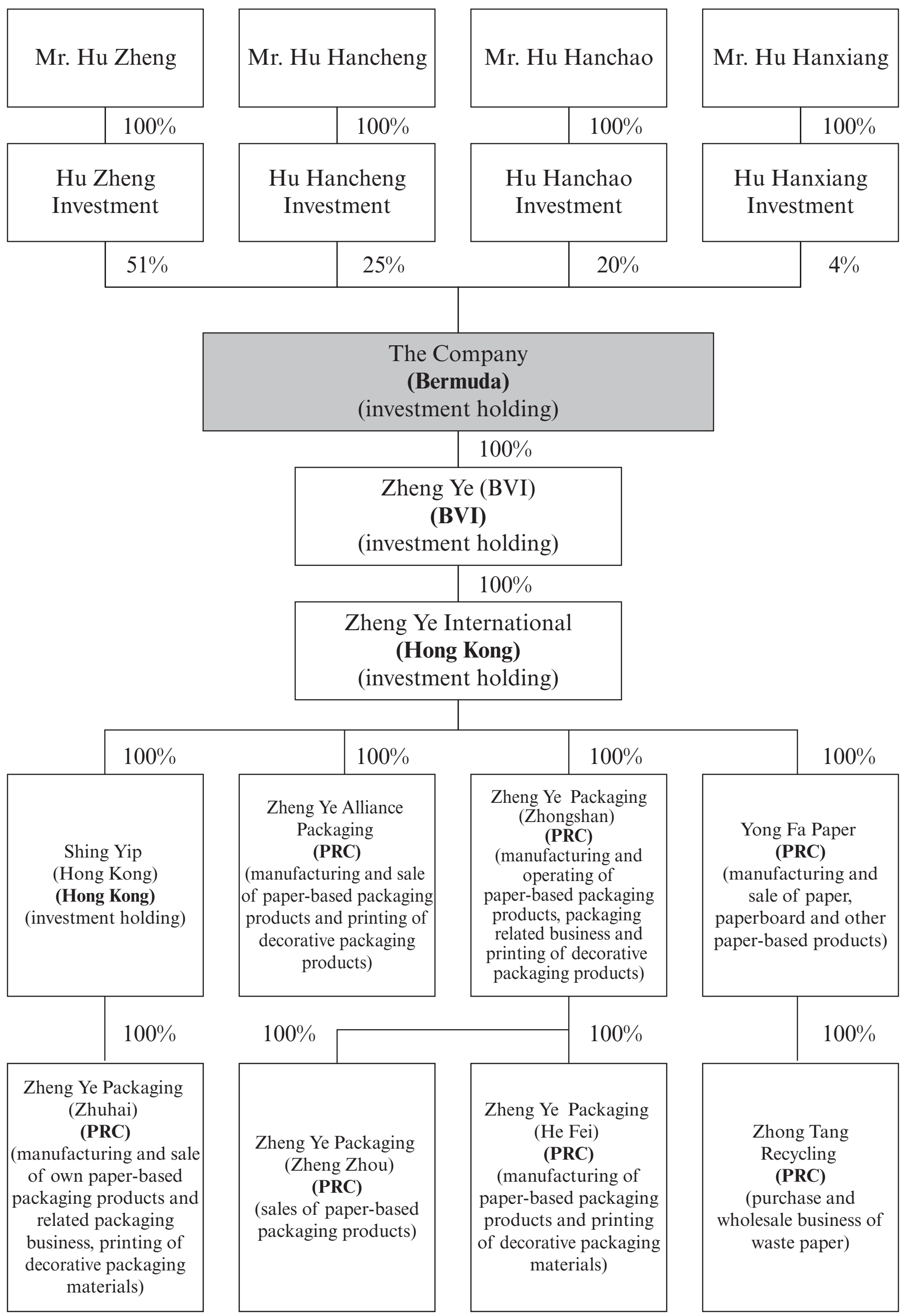
Our Company

In preparation of the Listing, our Company was incorporated in Bermuda on 18 August 2010 as an exempted company with limited liability. As at the Latest Practicable Date, our Company was held as to 51%, 25%, 20% and 4% by Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment respectively, which were in turn wholly-owned by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang respectively.

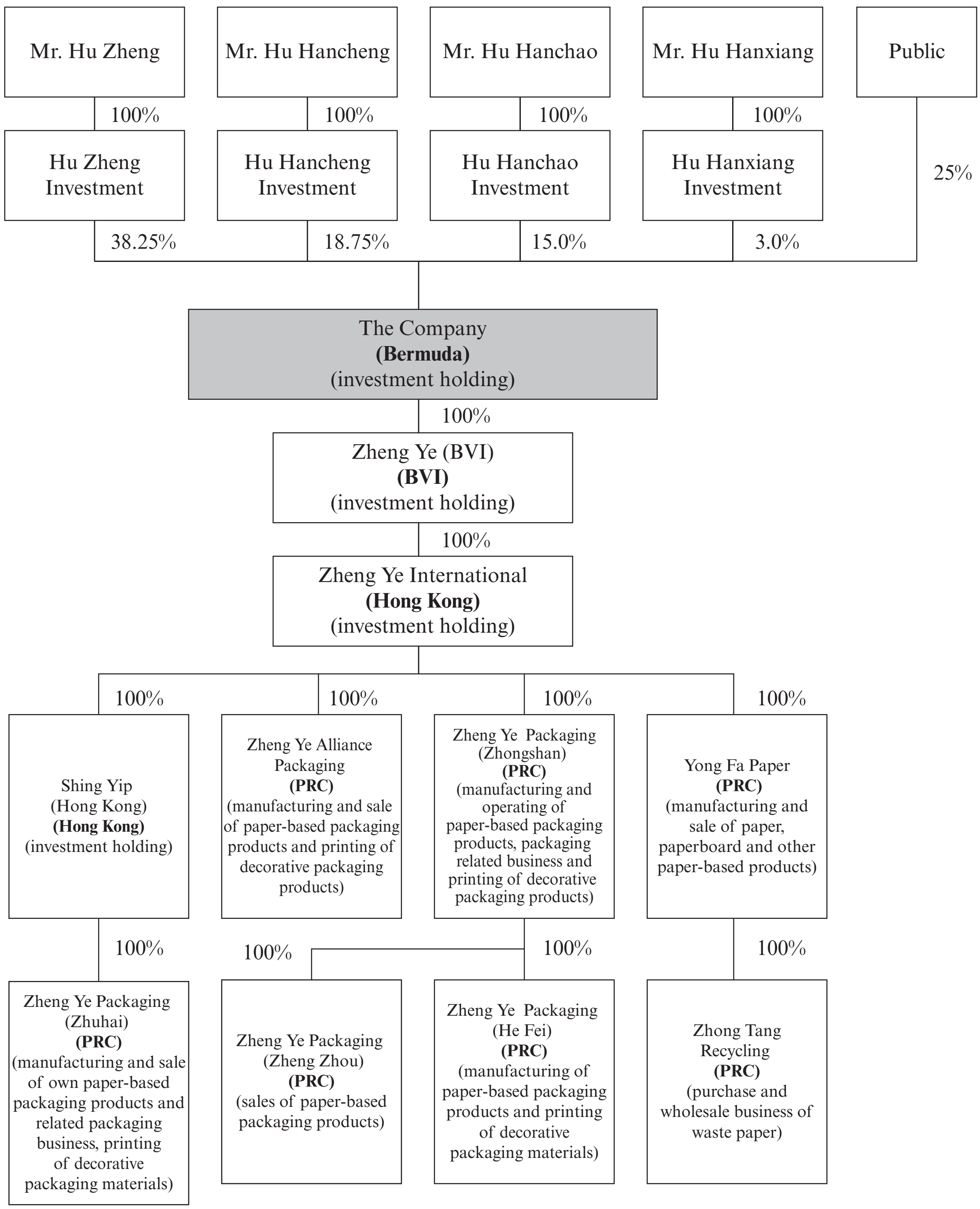
As a result of the Reorganisation, our Company, through Zheng Ye (BVI) and Zheng Ye International, became the holding company of our Group. Please refer to the paragraph headed "Overview" above in this section and the paragraph headed "Further information about our Company and our subsidiaries — 4. Group Reorganisation" as set out in Appendix V to this prospectus for further details of the Reorganisation.

GROUP STRUCTURE

The shareholding and corporate structure, place of incorporation/establishment and principal business activities of our Group immediately after the completion of the Reorganisation but prior to completion of the Capitalisation Issue and the Global Offering are set out below:



The shareholding and corporate structure, place of incorporation/establishment and principal activities of our Group immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option and any options that may be granted under the Share Option Scheme are not exercised) are set out below:



OVERVIEW

We are a manufacturer of paper-based packaging products in the PRC capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability. Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper and production of paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment.

Our principal products are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and are suitable for the packaging of consumer products, in particular household air-conditioners and other small household appliances; and (ii) high-strength corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes, and is mainly sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely, Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging). In order to capture the increasing market demand, we have commenced the commercial production of honeycomb paper-based products since December 2010.

Approximately 44.4%, 52.3% and 53.7% of our total revenue was generated from our paper-based packaging products, of which approximately 22.2%, 25.0% and 31.9% of our total revenue was generated from our sales to household air-conditioner manufacturers for each of the three years ended 31 December 2010. According to the Synovate Report commissioned by our Group, paper-based packaging for household air-conditioners in the PRC accounted for approximately 24.0% of the total revenue generated in the PRC paper-based packaging business for white goods in 2009. We were the largest supplier of paper-based packaging products for household air-conditioners in the PRC and our sales volume and revenue accounted for 28.7% and 25.7%, of the total paper-based packaging products for household air-conditioners in the PRC for the year ended 31 December 2009, respectively. Further, according to the China Packaging Federation, we were the largest supplier of paper-based packaging products for household air-conditioners in the PRC in terms of production volume for the year ended 31 December 2009 and our Group's paper-based packaging products accounted for approximately 30.5% of the total paper-based packaging products for air-conditioners in the PRC. We sell our paper-based packaging products to consumer product manufacturers in various industries, targeting in particular major manufacturers of household appliances (commonly known as "white goods"), such as Gree, Midea and Galanz. Our principal packaging business unit, Zheng Ye Packaging (Zhongshan), was accredited as China Leading Packaging Enterprise (中國包裝龍頭企業) in 2006 by China Packaging Federation, only three years subsequent to its establishment. This is a significant recognition of our commitment to the production of high quality paper-based packaging products and manifestation of our excellence in the packaging industry in China.

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, our Group also manufactures high-strength corrugated medium paper, which could satisfy our Group's demand for corrugated medium paper for producing paper-based packaging products. We are also committed in the continuous development and production of low quantum corrugated medium paper. For six consecutive years since 2003, the quality of our corrugated medium paper manufactured by Yong Fa Paper has been recognised by 國家輕工業紙張質量監督檢測廣州站 (China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division*) to have achieved the excellent standard. This could ensure the stable supply of quality raw materials for our Group's production of paper-based packaging products.

By leveraging our continuous expansion in production capacity expansion and our technical know-how in the manufacture of high-strength corrugated medium paper and paper-based packaging products, we achieved satisfactory growth in our business during the Track Record Period. Although our turnover was adversely affected by the financial crisis occurred in late 2008 and for each of the three years ended 31 December 2010, our Group's turnover was approximately RMB836.4 million, RMB743.4 million and RMB1,053.3 million, respectively, our Group's profit and total comprehensive income for the year for each of these three years was approximately RMB24.5 million, RMB62.3 million and RMB81.1 million, respectively.

The following table shows the breakdown of our revenue by business lines during the Track Record Period:

	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Revenue by product						
Paper-based packaging products	371,571	44.4%	388,497	52.3%	565,942	53.7%
Corrugated medium paper	464,838	55.6%	354,854	47.7%	487,360	46.3%
Total	**836,409**	**100.0%**	**743,351**	**100.0%**	**1,053,302**	**100.0%**

The revenue generated from our paper-based packaging products accounted for approximately 44.4%, 52.3% and 53.7% of our total revenue for each of the three years ended 31 December 2010, respectively. Contribution from the sales of our paper-based packaging products increased throughout the Track Record Period primarily due to the increase in sales volumes. The average selling price per sq.m. of our paper-based packaging products was stable and maintained at a range from approximately RMB3.0 per sq.m. to RMB3.4 per sq.m. during the Track Record Period, whereas contribution from sales of paper-based packaging products increased throughout the Track Record Period due to our growing emphasis on promoting our paper-based packaging products, increasing demand by customers for such products as well as our effort in expanding our customer base from focusing on the air-conditioning industry in the past to a wider range of industries, including the household appliance and food condiment industries during the Track Record Period. With the rising portion of revenue generated from the paper-based packaging products, we recorded an increasingly stable overall gross profit margin during the Track Record Period. This is mainly attributable to higher stability in pricing and cost structure of paper-based packaging products segment. On the other hand, as a result of the rising portion of revenue generated from the paper-based packaging products, we may face a risk of longer payment cycle as a result of longer credit period we granted to the customers of our paper-based packaging products. For details, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Revenue — Paper-based packaging products" in this prospectus.

The revenue generated from our corrugated medium paper accounted for approximately 55.6%, 47.7% and 46.3% of our total revenue for each of the three years ended 31 December 2010, respectively. Our Group prioritises the internal supply of corrugated medium paper for our production of paper-based packaging products with a view to ensuring product quality. We only consumed approximately 24%, 10% and 27% of corrugated medium paper from third parties for each of the three years ended 31 December 2010. For the same period, after the internal consumption of corrugated medium paper for our own production of paper-based packaging products, approximately 87%, 78% and 81% of our corrugated medium paper was sold to third parties.

Meanwhile, since the pricing of our corrugated medium paper was referenced to the prevailing market price of waste paper, the average selling price per tonne of our corrugated medium paper was higher in 2008, with approximately RMB2,626, as a result of the increasing price trend of waste paper. The decrease in the average selling price per tonne in year 2009 was mainly due to the impact from the financial crisis in the last quarter in 2008. The average selling price per tonne of our corrugated medium paper in 2009 was approximately RMB1,939, and increase to approximately RMB2,901 for the year ended 31 December 2010. For details, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Revenue — Corrugated medium paper" in this prospectus.

Our gross profit for each of the three financial years ended 31 December 2010 was approximately RMB102.9 million, RMB139.1 million and RMB187.0 million, respectively, while our gross profit margin for each of the three financial years ended 31 December 2010 was approximately 12.3%, 18.7% and 17.8%, respectively.

Our Group's gross profit margin for corrugated medium paper was approximately 7.4% for the year ended 31 December 2008, however, the gross profit margin for paper-based packaging products was approximately 18.4% for the year ended 31 December 2008. Our Directors considered that the difference in the gross profit margin of our corrugated medium paper and paper-based packaging products could be attributable to the difference in their pricing policies and the cost structure of these two products. Throughout the year 2009, our gross profit margin for corrugated medium paper improved significantly due to the gradual improvement in the global economy after the financial crisis. Our Group's gross profit margin for corrugated medium paper then increased to approximately 15.6% and 17.1% for the year ended 31 December 2009 and the year ended 31 December 2010. Meanwhile, the gross profit margin for paper-based packaging products increased to approximately 21.5% for the year ended 31 December 2009 but then decreased to approximately 18.3% for the year ended 31 December 2010. For details of the pricing policies, please refer to the section "Financial information — Description of certain components of statements of comprehensive income — Gross profit and gross profit margin" in this prospectus.

We had net current liabilities of approximately RMB4.3 million and RMB51.6 million as at 31 December 2008 and 31 December 2010 respectively. Our net current liabilities positions were principally attributed to the utilisation of short-term bank borrowings from licensed banks in the PRC to finance our business operations and capital expenditure for the respective financial periods. For details, please refer to the section "Financial information — Liquidity, financial resources and capital structure" in this prospectus.

With our existing production base locating in the Pearl River Delta region which is a base for the manufacturing of household appliances in the PRC, we are able to serve as an enterprise capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability, supplying quality corrugated cartons and other ancillary products such as honeycomb paper-based products for the provision of packaging solution for many "white goods" such as household air-conditioners. As at the Latest Practicable Date, we owned and operated nine production lines, including six production lines for corrugated cartons, two production lines for honeycomb paper-based products and one production line for corrugated medium paper, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, and approximately 220,000 tonnes of corrugated medium paper. We are in the process of setting up the fourth paper making machine with a designed capacity of approximately 80,000 tonnes corrugated medium paper, which is scheduled to commence its operation in the second half of 2011. Our Group purchased honeycomb paperboard from third parties for further processing and sold the processed honeycomb paper-based products for the year ended 31 December 2010. Such sales constituted approximately 1.0% of our total sales for the year ended 31 December 2010. Our Group commenced the commercial production of honeycomb paper-based products in December 2010. In view of the potential business opportunity in the central China area, Zheng Ye Packaging (Zheng Zhou) was established on 27 April 2011 as we intend to set up our new paper-based packaging production plant in Zhengzhou, Henan Province, the PRC, which is expected to contribute to our Group an additional annual production capacity of up to an approximately 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the fourth quarter of 2011. Our expansion in Zhengzhou is still in a preliminary stage and we shall apply to the competent authorities for all the applicable licences and permits in due course. In addition, Zheng Ye Packaging (He Fei) was established on 10 September 2010 for setting up our new production base in Hefei, Anhui Province, the PRC, where it is expected to become a growing hub for the household appliance industry. It is expected that this production base will contribute to our Group an additional annual production capacity of up to approximately 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the first quarter of 2012.

Due to strong growth in personal disposable income and rising living standard in the PRC, it is expected that the demand for "white goods" in terms of quality and value will continue to rise. Moreover, with the implementation of the Rural Appliance Rebate Program which encourage spending on household appliances, it is expected the overall sales of household appliances shall continue to increase. Our Directors believe that such initiative to encourage spending on household appliances could stimulate the demand for household appliances, which would increase the demand of our paper-based packaging products by our customers, whom include major manufacturers of household appliances. Sales of approximately RMB252.9 million, RMB268.1 million and RMB453.1 million, representing approximately 68%, 69% and 80% of our revenue from the paper-based packaging product segment was derived from household appliances manufacturers for the three years ended 31 December 2010, respectively, and which accounted for approximately 30%, 36% and 43% of our total revenue for the same period. The Rural Appliance Rebate Program will expire on 30 November 2012 and another state policy, the Change of the Old for New Program will expire on 31 December 2011. In addition, social advocacy of environmental protection would also fuel the demand for more environmentally friendly packaging. In particular, our Directors believe that the recent trend to fully replace the use of foam and plastic in packaging has induced the demand for alternative packaging materials (such as corrugated medium paper) and products (including corrugated paperboards and cartons), which in turn accelerates the growth potential for our paper-based packaging products. According to the Packaging Report, as the development of the PRC packaging industry and the consumer demand are highly correlated, it is expected that there will be an enormous growth potential at a CAGR of approximately 14.9% in the corrugating carton packaging industry in the PRC for the next three years.

Our Directors believe that our Group is competitive and well positioned in the paper-based packaging industry to capture the anticipated growth in the demand in the PRC for quality corrugated medium paper and paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment, given that: (i) our Group focuses on serving large scale household appliances enterprises with paper-based packaging products with strong emphasis on packaging design and products development which can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on the environment; (ii) our long-term relationship with our major customers (many of which are reputable brand-name holders in the PRC); (iii) our highly automated production lines and stringent quality control measures; (iv) our own capability to produce high quality corrugated medium paper to ensure the stable supply and quality of critical raw materials for our Group's packaging business; and (v) our professional and experienced management team with in-depth knowledge in the industry.

MILESTONES IN OUR BUSINESS DEVELOPMENT

Our Group was first incepted with the establishment of Zheng Ye International in 1999 by Mr. Hu Zheng. After about a decade's of unremitting efforts, our Group has now become a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper, and production of paper-based packaging products in the PRC. The following sets out the key business development milestones since our establishment:

1999	Zheng Ye International, our first operating subsidiary, was incorporated in Hong Kong to engage in the trading of waste paper
2002	Zheng Ye International commenced its business of waste paper trading
2003	Zheng Ye Packaging (Zhongshan) and Yong Fa Paper were established in Zhongshan, Guangdong Province, the PRC to commence the business of manufacturing of paper-based packaging products and manufacturing and sales of corrugated medium paper, respectively
	Zheng Ye Packaging (Zhongshan) became the supplier of Gree
2004	Zheng Ye Packaging (Zhongshan) became the supplier of Midea and Galanz
2005	Zheng Ye Packaging (Zhuhai) was established as the second subsidiary for the manufacturing of paper-based packaging products of our Group's packaging service
2006	Zheng Ye Packaging (Zhongshan) obtained the accreditation of China Leading Packaging Enterprise (中國包裝龍頭企業)
2009	Zheng Ye Packaging (Zhongshan) was named Strategic Supplier for 2009 by Midea and Galanz
2010	Zheng Ye Packaging (He Fei) was established for setting up our new production base in Hefei, Anhui Province, the PRC
	Zheng Ye Alliance Packaging has built two production lines specialised for honeycomb paper-based products at the new factory at Zhongshan Guangdong Province, the PRC, and has commenced production in December 2010
2011	Zheng Ye Packaging (Zheng Zhou) was established for setting up our new production base in Zhengzhou, Henan Province, the PRC

COMPETITIVE STRENGTHS

We attribute our success to the following competitive strengths which enable our Group to further expand and maintain our position in the PRC market and bolster our future prospects:

As our products are produced principally using waste paper, we could maintain sustainable development in the corrugated medium paper and paper-based packaging industries in light of the national policies of the PRC and growing concern over environmental protection

Our corporate mission is: "Caring for environmental protection and developing circular economy; turning waste into wealth and creating a harmony environment". We use waste paper as our principal raw material for the production of our corrugated medium paper which in turn is used in the production of our paper-based packaging products and these corrugated medium paper and paper-based packaging products can be recycled again. We believe the use of waste paper as the primary raw material for manufacturing paper has been encouraged under various national policies promulgated by the PRC government as waste paper can be recycled and thus reducing the use of wood and timber. For example, in《關於加快推進木材節約和代用工作的意見》(國辦簽[2005]58號) (Opinion on Speeding up the Implementation on the Timber Conversation and the Utilisation of Timber Substitutes (No. 58 [2005] of the General Office of the State Council*)), the production and use of substitutions for wood and timber was encouraged.

In addition, our quality paper-based packaging products can be engineered to provide the desired characteristics for a particular packaging application in which paper-based packaging materials are used to replace foam products used as inner packaging. We believe our customers have heeded the exponentially growing call for ecologically friendly practices and are more inclined to use recyclable packaging products. There will be a growing trend that these customers, in particular those "white goods" manufacturers, will place more orders for paper-based packaging products such as corrugated cartons with modeled pulp or honeycomb paper-based products as inner cushion and shock absorption materials, all of which can substitute foam and plastic packaging materials and in turn, increase the demand for paper-based packaging products in the PRC.

Our Directors believe that these national policies and the growing concern over environmental protection would advocate the potential growth in demand for our paper and paper-based packaging products. As such, our Directors believe that given our capability in producing quality corrugated medium paper and paper-based packaging products, we could capture the growing demand for corrugated medium paper and paper-based packaging products in the PRC, and further develop our paper-based packaging business.

We have a diversified and solid customer base; and are located in proximity with our customers

Our customers mainly include: (i) in respect of our paper-based packaging products, manufacturers of consumer products in various industries, including some renowned brands in the PRC, such as Gree, Midea, Galanz, TCL and Panasonic being the major household appliances manufacturers in the PRC, and Lee Kum Kee and Haitian in the food condiment industry. We have also been successful in becoming a strategic supplier of packaging products to a number of our customers; and (ii) in respect of our corrugated medium paper, manufacturers of corrugated cartons.

To avoid over-reliance on any particular customer or industry, our Group has successfully built up a solid customer base with major customers across various industries, including household appliances, food condiment, motor bikes and information technology products.

Our Directors believe that the business relationship with these renowned customers has proven their recognition of the quality products and services of our Group, and our Directors consider these recognition and goodwill will be a key factor to succeed in the industry. We also believe that our Group is widely seen as a high-quality and stable option for companies that seek partnership with us as a platform for investment and mutual growth, especially in China. We have the organizational capability to grow with our customers and our focus on quality products and services will continue to make us a sought-after player in the packaging market. Such well penetrated and solid customer base provides a favourable foundation for our Group to further develop and expand our business.

Our existing production plants are located in Zhongshan and Zhuhai, the southern part of the PRC and within the Pearl River Delta region, which has been one of the world's most important centres of industrial output and a major manufacturing and export hub of household appliances of the PRC following the adoption of its open door economic reform policies in the 1970s. As the Pearl River Delta region is a major hub of light industry in the PRC, a number of "white goods" and food condiment manufacturing enterprises, including some of our major customers (such as Gree, Midea, Galanz and Haitian), have established their production plants within a 100-km radius of our production plants in this region. Therefore, we enjoy a conspicuous advantage in setting up our production plants in their proximity which allows us to minimise production lead-times for our goods to reach our customers. It also helps distinguish us as a more cost-effective supplier by lowering the transportation cost for our customers. In addition, our production plants are also in close proximity to a highly developed highway network of the Guangdong Province. Our own shipping pier in Zhongshan, Guangdong Province, the PRC, will also enable us to make good use of natural waterway of the Pearl River Delta in sourcing raw materials, such as waste paper and coal.

The close proximity of our production base with our customers also enables us to provide quality after sales service. We pride ourselves on being able to provide quality products which fit our customers' needs. To better understand our customers' ongoing needs and ensure all our customers are satisfied with our products, each of our customers is served by a designated account manager and experienced sales team who will follow up with our customers on a regular basis, either by phone calls, by attending our customers' production facilities to understand the use of our products to ensure all our customers' feedback are well received and followed up.

We have an integrated operational chain and our continuous expansion in production capacity enables us to take advantage of economies of scale

We are an enterprise having an integrated chain of production process stretching from the recycling of waste paper to the manufacturing of corrugated medium paper and production of paper-based packaging products. Zhong Tang Recycling is our business unit responsible for the entire collection process and storage of waste paper in the Pearl River Delta region of the PRC to support our paper making operations whereas Yong Fa Paper plays a supporting role in sourcing waste paper mainly from Hong Kong and overseas. Yong Fa Paper is also our principal operating subsidiary engaging in the manufacturing of corrugated medium paper. Zheng Ye Packaging (Zhongshan) and Zheng Ye Packaging (Zhuhai) are our key operating subsidiaries engaging in the processing and production of paper-based packaging products and Zheng Ye Alliance Packaging is our subsidiary specialising in the production of honeycomb paper-based products. Due to our presence and capability in this integrated chain of waste paper recycling, paper and packaging production process, and with our own stable heat-electricity combined supply facility, we have a competitive strength in controlling the cost of production and ensuring the quality of our products.

Enhancing production capabilities and efficiency has always been a priority for us. As at the Latest Practicable Date, we owned and operated nine production lines including six production lines for corrugated cartons, two production lines for honeycomb paper-based products and one production line for corrugated medium paper, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, and approximately 220,000 tonnes of corrugated medium paper. In addition to the significant investment in technologically advanced paper and paperboard making machines we purchased from Germany and the PRC, we have allocated resources to improve our production efficiency. With such production facilities and satisfactory production efficiency, coupled with the close proximity of our production facilities to the production bases of our customers, we are able to benefit from the economies of scale and produce and deliver products to customers on a timely basis and most importantly, at a lower average cost, which in turn allows us to market our products at a competitive price. This has strengthened our position as an established paper-based packaging enterprise in the PRC and we will continue to improve and fine tune our production facilities to maintain our competitiveness. Our scale of production also provides us with flexibility to accommodate changes in market demand and enables us to meet requirements of a wide spectrum of customers.

We adopt stringent quality control measures and environmentally responsible practices

Our Directors believe that continual adherence to stringent quality control procedures is the key in maintaining good reputation for product quality among our customers and differentiating our competitors in the packaging industry.

We impose stringent inspection and testing procedures on raw materials and finished products and implement comprehensive quality control measures throughout the entire production manufacturing and management processes, including sample testing of raw paper texture and random inspection of quality at each stage of production in order to ensure that, above all, our products have satisfied our customers' specifications and requirements. Our efforts are best illustrated through the awards and certificates we have obtained. As at the Latest Practicable Date, Zheng Ye Packaging (Zhongshan), Zheng Ye (Zhuhai) and Yong Fa Paper had been accredited with the internationally recognised ISO 9001 certification in respect of the quality management system they operate. In addition, each of our Group's production facilities has its own testing centre for sample testing of raw paper texture before production and sample testing of work-in-progress and finished products before delivery.

During the Track Record Period, we had not received any material complaint from our customers nor had we experienced any material return of defective products. Our Directors believe that our focus on maintaining stringent quality control standards allows us to establish market reputation as one of the leading manufacturers of paper-based packaging products for household air-conditioners in the PRC.

We always attach importance to environmental protection as our business develops. We use waste paper as our principal raw material for the production of our corrugated medium paper which in turn will be used in the production of our paper-based packaging products. These corrugated medium paper and paper-based packaging products can be recycled again. Over the years, we have invested continuously in energy-saving equipments, waste water treatment system and advanced electrostatic dust removal and flue gas desulfurisation system, and implemented other environmental protection routines at our production plants. All these efforts have paid off as our Group's subsidiary, Zheng Ye Packaging (Zhongshan), has been accredited ISO 14001 certification, which certifies that systematic approach has been set up to control the environmental impact of our Group's production.

During the Track Record Period, we had not received any claim for breach or non-compliance with all applicable environmental laws, or incurred any environmental liabilities which could have a material adverse effect on our Group's business and results of operations. In anticipation of more stringent rules and regulations over and the growing call for environmental protection, our environmentally responsible practices would put us in an advantageous position over our competitors, since costs and liabilities related to compliance with applicable environmental laws and regulations are an inherent part of the paper making and packaging business.

We have an experienced and capable management team and operating staff with in-depth knowledge in the paper-based packaging and corrugated medium paper industries

We place strong emphasis on professional personnel and a strong management team. Our Group's continued success is attributable, to a large extent, to our capable and experienced management team led by Mr. Hu Zheng. The management team does not only have in-depth knowledge of corrugated medium paper and paper-based packaging products, but the team members also maintain good relationships with our customers and suppliers. In particular, Mr. Hu Zheng, one of our Group's founders and an executive Director, as well as the Chairman of the Board, has over 20 years of experience in the packaging and corrugated medium paper industries.

Our senior management and key operating personnel not only possesses extensive management skills, operation experience and in-depth knowledge of the corrugated medium paper and packaging industries in the PRC, but also understands the needs of our Group's customers which enable our Group to maintain our competitive edges over our competitors.

Our strong and highly motivated sales team enables us to sustain good business relationships with our existing customers and to develop new business relationship with potential customers. Our management and technical staff, who have vast experience in the packaging and paper manufacturing industries, has given us an invaluable level of know-how in product development, product quality assurance and operation of production facilities. We believe that the collective strengths and experience of our senior management and key operating personnel will continue to serve as a platform upon which our business will grow.

BUSINESS STRATEGIES

We strive to become the leading manufacturer of paper-based packaging products and corrugated medium paper in the PRC. We strive to use waste paper in our production, adopt stringent environmental protection measures and produce products that can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on the environment. With the anticipation on future growth in the demand of paper-based packaging sector and to capture such expected growth, we will continue to seek opportunities to realise sustainable growth of our business.

In order to achieve this business objective, we intend to continue to expand our business and market share through the following strategies:

To increase our production capacity within the Southern China region and to enhance our production efficiency and quality assurance and control systems

We intend to continue to strengthen our packaging business at our existing base in the Southern China region, and, in particular, expand our production capacity of honeycomb paper-based packaging products. In addition to developing paper-based packaging products for "white goods", we aim to expand into the packaging business for information technology products. We strive to optimise, improve and upgrade our technical know-how and production equipments so as to increase the utilisation rate of our production lines, and to enhance our production efficiency and product quality.

To establish new paper-based packaging production bases to achieve regional development

In addition to our further investment in expanding, modifying and upgrading our existing facilities for the production of our corrugated medium paper and paper-based packaging products in our production base in Zhongshan and Zhuhai, Guangdong Province, the PRC, with a view to enhancing our production capacity and efficiency, we intend to set up a new paper-based packaging products production plants in Zhengzhou, Henan Province, and Hefei, Anhui Province, the PRC.

We have received a letter of invitation from Gree who has expanded into Zhengzhou and is constructing a production base for the manufacturing of air conditioners. In order to capture the potential business opportunity in that area and to serve Gree, Zheng Ye Packaging (Zheng Zhou) was established on 27 April 2011 for setting up our new paper-based packaging products production plant with three production lines in the region, which is expected to contribute to our Group an additional annual production capacity of up to approximately 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the fourth quarter of 2011. Our expansion in Zhengzhou is still in a preliminary stage and our Group shall apply to the competent authorities for all the applicable licences and permits in due course.

In addition, we have received letters of invitation from some of our customers who have also expanded into Hefei, Anhui Province, the PRC, where it is expected to become a growing hub for household appliance industry. In view of this, we plan to set up a large scale production base focusing on the production of paper-based packaging production in the region. Zheng Ye Packaging (He Fei) was established on 10 September 2010 in Hefei, where we intend to build a plant with three production lines for the production of paper-based packaging products which will contribute to our Group an additional annual production capacity of up to approximately 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products starting from the first quarter of 2012. Our Group has filed with the competent authority the construction plan of infrastructure such as factory and office building for our Hefei project, but we are yet to undergo procedures regarding land use, environmental protection, construction planning, etc.

While the letters of invitation, which are not legally binding in nature, do not constitute confirmed orders, they represent unequivocal recognition in our Group, and strong interests of our customers in sourcing paper-based packaging products from our Group once our new manufacturing facilities are in place.

We believe this plan is also a "track-the-footstep of customer" strategy through which we are able to expand our geographical coverage beyond the Pearl River Delta region in to the inland region of China and demonstrate our readiness in partnering our major customers for mutual growth since, to the best knowledge of our Directors, some of our major customers in the "white goods" industry, such as Gree and Midea, have already set up sizeable production plants in the same locality with the goal to tap the opportunity of an up and coming consumer market.

Expansion plan

The following table sets forth, among others, the details of our expansion plan, estimated total investment and source of funding as at the Latest Practicable Date:

Details of expansion plan	Status of expansion	Date of expected commencement of production	Total investment as at the Latest Practicable Date	Expected time of completion of payment	Estimated total investment (RMB) and sources of funding
To establish a production plant in Zhengzhou, Henan Province, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products. It is expected that this production base with three production lines will contribute to our Group an additional annual production capacity of 106,920,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products.	Zheng Ye Packaging (Zheng Zhou) was established in the PRC on 27 April 2011. We shall apply to the competent authorities for all the applicable licences and permits in due course. We expect to obtain the construction permit and commence the construction by the end of June 2011.	Fourth quarter of 2011	Nil	By the third quarter of 2012	RMB133,300,000; Net proceeds from the Global Offering and working capital
To establish a production plant in Hefei, Anhui Province, the PRC, to engage in the manufacturing of paper-based packaging products and the printing of decorative packaging products. It is expected that this production base with three production lines will contribute to our Group an additional annual production capacity of 148,500,000 sq.m. of corrugated cartons, 7,700,000 sq.m. of honeycomb paper-based products and other ancillary products.	Zheng Ye Packaging (He Fei) was established in the PRC on 10 September 2010. We shall apply to the competent authorities for all the applicable licences and permits in due course. We expect to obtain the construction permit and commence the construction in the third quarter of 2011.	First quarter of 2012	RMB6,750,000	By the first quarter of 2013	RMB122,300,000; Net proceeds from the Global Offering and working capital

Our Directors expect that such expansion plans will be funded by the proceeds from the Global Offering. For details, please refer to the paragraph headed "Proposed use of net proceeds" in the section headed "Future plans and use of proceeds" in this prospectus.

Apart from serving our existing customers whom have invited us to expand into the new regions, our Directors believe that, by establishing our presence in the new regions, we could attract new customers who are looking for quality paper-based packaging products. In terms of sourcing our supplies for our new production plants in these new regions, we intend to source from some of our existing suppliers, or look for new suppliers through the local arms of the China Packaging Federation or China Paper Association and the internet. Our Group is confident that we could source suitable suppliers based on our experience and reputation within the industry. In addition, our Group may consider acquiring suitable corrugated medium paper factory and expanding into the waste paper recycling business in these new regions to ensure the stable supply of raw materials in the long run.

We intend to manage our expansion through the implantation of a centralised system. Please refer to the paragraph headed "Business strategies — To fully implement an improved ERP system for better management control and to enhance corporate governance" in this section for details.

We will adopt a centralised system to coordinate our Group's sales and purchase activities, as well as our financial and human resources management, at our Group's base located in Zhongshan Guangdong Province, the PRC. Mr. Zhang Xiaoming, vice president of our Group's packaging division, is responsible for overseeing the operation management of the new projects at Zhengzhou, Henan Province, and Hefei, Anhui Province, the PRC. Mr. Zhang was responsible for our Group's previous expansion project in Zhuhai, Guangdong Province, the PRC back in 2005 as well. Two senior management staff, both with over ten years of industry experience, have been selected by our Group, and will be designated as the general managers of the new production bases responsible for the daily operation of such bases. They will be supported by two newly recruited deputy factory managers, both with over eight years of industry experience, whom have recently joined our Group and are now undertaking trainings and working alongside our Group's senior management team at our base at Zhongshan, Guangdong Province, the PRC.

Furthermore, we will continue to keep a stringent quality assurance and control system and maintain a high standard in the inspection of our raw materials, work-in-progress and finished goods. In addition, we will seek advice and collect feedback from industrial expertise and, where appropriate, adopt new measures to modify and improve our quality assurance and control systems.

To enhance market penetration in existing markets and to provide value-added paper-based packaging solutions

We do not rest on our laurels of being named as China Leading Packaging Enterprise (中國包裝龍頭企業). While we have recorded satisfactory growth in the past in the Pearl River Delta region, we consider that there remains a huge potential for development in the same region and also other regions in the PRC. We plan to actively seek further penetration of our paper-based packaging products and corrugated medium paper in our existing markets in the PRC by offering high quality corrugated cartons, honeycomb paper-based products and corrugated medium paper.

Capitalising on our capability in producing high-strength corrugated medium paper, we intend to produce paper-based packaging products using these low quantum corrugated medium paper as raw material to allow weight and raw material cost savings in order to be competitive against other paper-based packaging product using traditional corrugated cardboard or cartons as raw material in the market. These paper-based packaging products would reduce packaging weight, bulk and the amount of material used, allowing customers to save on transportation costs.

Apart from supplying quality paper-based packaging products, we also recognise the importance of providing value-added and tailor-made packaging solutions, ranging from the design, printing and structural packaging design, to our customers. To differentiate our Group from our competitors, we aim to position ourselves as a solution provider for paper-based packaging services. Our Group places a strong emphasis on packaging design and product development. The essence of packaging is to protect the goods from damage during transportation and storage. Effectiveness of these functions are to a large extent determined by the structural design of the corrugated carton used, as well as the selection of corrugated paperboards, whilst all these factors vary with the particular properties of the package content and customers' specifications. We understand our customers' needs, and offer paper-based packaging solutions to our customers by advising them on, and/or providing them with, design of paper-based packaging products that are tailor-made for their products as a value-added service and sales and marketing strategy. We design corrugated packaging products that best serve our customers' needs according to their specifications and requirements, and we take care of all the production procedures from selecting and procuring suitable raw materials, producing corrugated medium paper or corrugated paperboards, manufacturing corrugated cartons of the required size, shape, weight, thickness, and interior design, and affixing logos, brands or graphics on the surface of the corrugated cartons with different colour for our customers. We plan to deploy our experienced staff in our sales and marketing team, with the support of our production and technical staff, to collaborate with our customers in discussing the specific requirements for any given orders for packaging the products of our customers so that our sales and marketing team could relay appropriate advice to them in respect of their pre-designed packaging so that our customers could achieve the most desired packaging for their products. We believe with our capability in providing tailor-made packaging solutions, we could build up and maintain long term business relationships with our customers and attract potential customers.

To strengthen our growth through organic growth, selective acquisitions and partnerships

Our Directors recognise the importance of maintaining a sustainable growth. Apart from relying on expanding the scale of our operations and introducing new products, it is also our intention to conduct selective acquisitions to increase our production capability and market share. Our primary acquisition targets will be other corrugated medium paper manufacturers, paper-based packaging products manufacturers, or other complementary production facilities in the PRC. As at the Latest Practicable Date, we were not in negotiation with any other specific acquisition targets and had not identified any such targets. We may also establish partnerships with other market players in the areas of production, material sourcing, sales and research. Our Directors believe that such partnerships would create synergy effect and our Group could benefit from having lower costs of materials or sales and strengthened our technical capabilities.

To invest in research and development initiatives in order to enhance our production capacity, production efficiency and product diversification

Our Directors believe that production capacity, production efficiency and product diversification are three elements of our success, and as such our Group will continue to devote resources to enhance our product research and development capabilities. Our Group intends to increase the headcount of staff engaging in research and development, and at the same time, provide them with quality training in order to continue to further our research and development efforts, among others, in the paper-based packaging business for household appliances. We have commenced the construction of a new building to be used as our Group's research and development centre in Zhongshan Guangdong Province, the PRC near our production base with a view to centralise our research and development activities. Furthermore, our Group will purchase and upgrade our equipments in order to strengthen our capabilities in product testing, design, research and development.

In addition, we realise the value of collaboration between a production corporation and tertiary institutions and established research institutions. We had, through Yong Fa Paper, collaborated in the past with South China University of Technology (華南理工大學) in respect of certain patents and technology know-how in the paper production process. We anticipate to expand our research and development capabilities by forming strategic alliance with tertiary institutions and established research institutions in the future, which will be able to provide us with readily available technical expertise and would thus bring new improvements to, among others, our operation, in particular product development, production efficiency and quality control.

Our Directors believe that, by continuing investing on research and development, our production capacity and efficiency will be enhanced and we will be able to provide a more diversified range of products.

To fully implement an improved ERP system for better management control and to enhance corporate governance

With the expansion and development of our Group's production base, in order to streamline our internal control, to allow full integration of our various production facilities and to improve the information technology management for better operation management, our Group plans to cooperate with a leading software development company in the PRC for the design and develop of an ERP system that is tailored for our Group. The ERP could enable our Group's management to exercise more rigorous and efficient control over our Group's operation and lay a solid foundation to ensure the maintenance of our economic efficiency.

OUR PRODUCTS

The principal products of our Group are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products including honeycomb paper-based products; and (ii) corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes and is sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely, Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging). The following table sets forth a breakdown of our Group's revenue by products during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Revenue by product						
Paper-based packaging products	371,571	44.4%	388,497	52.3%	565,942	53.7%
Corrugated medium paper	464,838	55.6%	354,854	47.7%	487,360	46.3%
Total	**836,409**	**100.0%**	**743,351**	**100.0%**	**1,053,302**	**100.0%**

A. Paper-based packaging products

The key products of our paper-based packaging products are corrugated cartons and honeycomb paper-based packaging products.

Corrugated cartons produced by our Group can be used as packaging materials for various products. It makes use of corrugated paperboard which is die-cut into the required shape and size, then folded and glued to form a container box. Moreover, to cater for consumer product packaging, our Group offers colour cartons for which we provide colour printing services of logos, brands or graphics on corrugated cartons according to customers' specifications to enhance the appearance to attain marketing and advertising purposes. Our Group leverages our in-depth knowledge and experience to provide, or advise our customers on, the selection of corrugated paperboards and the structural design of corrugated cartons with an aim to provide them with protective, space and cost saving and eye-catching packaging products.

Our Group also manufactures and sells honeycomb paper-based products, which mainly includes honeycomb paper-made pallets, honeycomb cardboards and paper edge boards. Such products are normally sold together with corrugated cartons. We started the commercial production of honeycomb paper-based products in December 2010, and we anticipate our sales of honeycomb paper-based products will become an important drive to our revenue growth in the near future.

With the special design of the honeycomb structure, our products can easily meet the requirement of anti-vibration for use in dynamic transport of goods. Honeycomb cardboards provide high stability and surface quality and may therefore be applied to packaging high-value goods and displaying advertisement. In packaging applications, these bio-degradable paper honeycomb materials are used to replace products such as foam and plastic materials as inner support packaging materials for better crash absorption. They are also of high-strength, with great elasticity, and are also shock-proof, moisture-proof and heat-insulated.

B. Corrugated medium paper

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, our Group also manufactures high-strength corrugated medium paper as well as high-strength and low quantum corrugated medium paper of different sizes, thicknesses and strength so as to tailor solutions to our customers' specifications, which include Grade AA corrugated medium paper of 100 g/m^2 to 180 g/m^2 and Grade C corrugated medium paper of 75 g/m^2 to 100 g/m^2 principally produced by our Group. Based on the quality of our corrugated medium paper, mainly determined by its strength or its sustainability to pressure or stretching, we classify our corrugated medium paper into two grades, namely, Grade AA and Grade C, with the former signifying better quality.

In February 2009, through our effort in research and development, we developed corrugated medium paper of 75 g/m^2. We believe we are one of the few manufacturers in the PRC who is currently manufacturing corrugated medium paper of 75 g/m^2, which is believed to be ideal by offering secured yet cost effective packaging solutions for our customers' products.

Yong Fa Paper plays as an important part within our operations by satisfying the operation needs of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging and generating stable revenue to our Group by selling its quality corrugated medium paper to third parties. Our Group prioritises internal sourcing of corrugated medium paper and also sells corrugated medium paper to third parties. Approximately 87%, 78% and 81% of the corrugated medium paper produced by our Group was sold to third parties during the three years ended 31 December 2010, respectively.

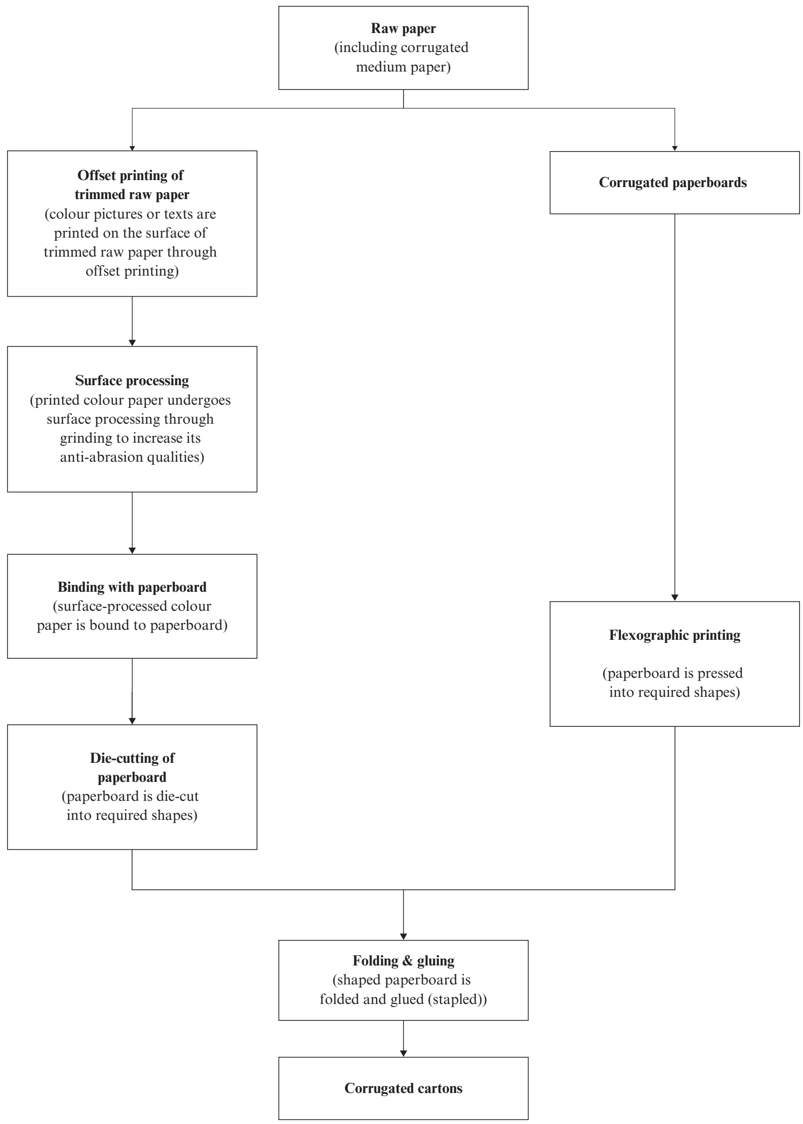
PRODUCTION

Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper, and production of paper-based packaging products which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment. Our Group currently has a comprehensive production base in Southern China, which produces paper-based packaging for household appliances, while also produces high-strength corrugated medium paper.

The charts below illustrate the key steps of the production processes of our paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and corrugated medium paper:

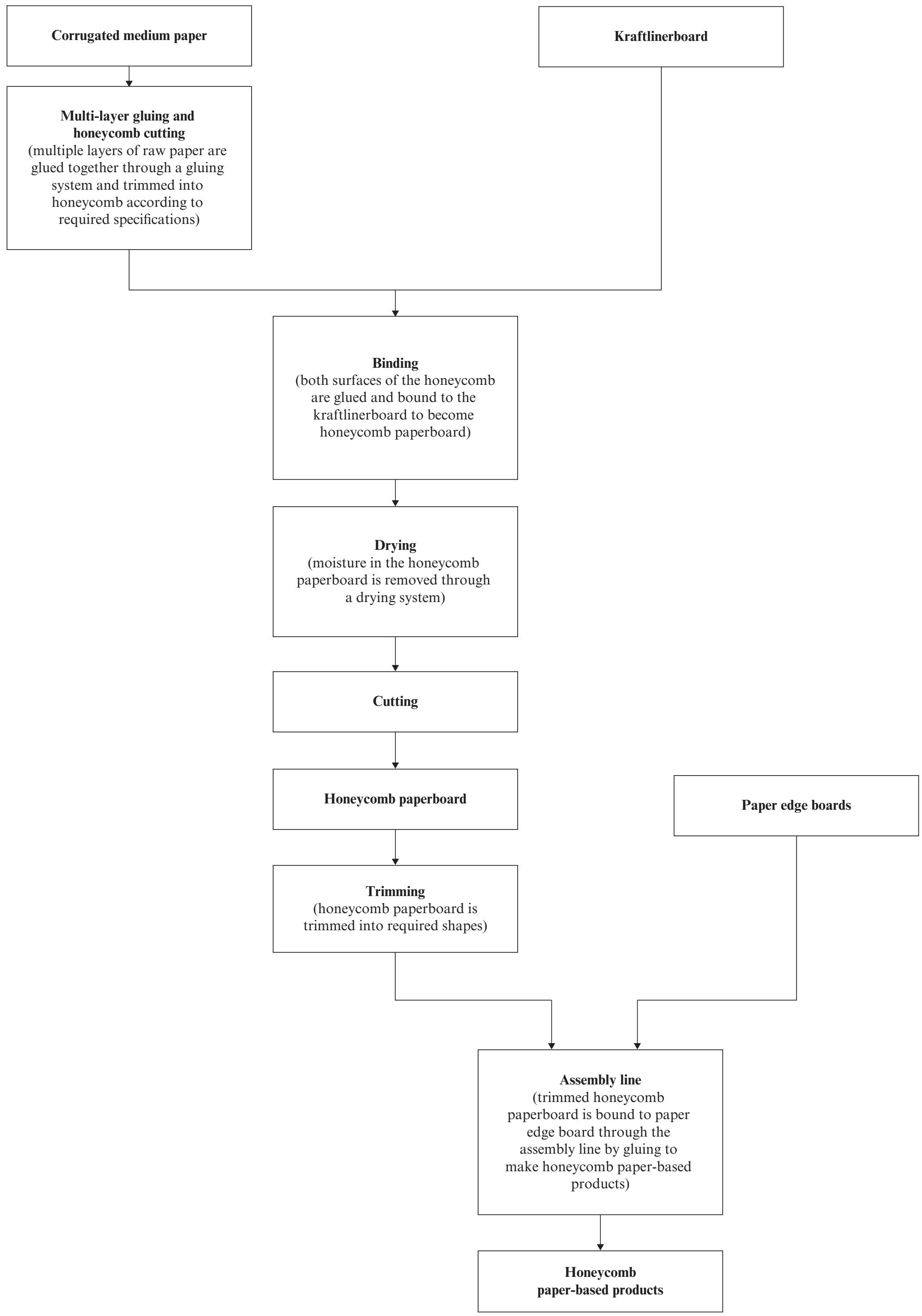
We produce a wide range of paper-based packaging products and advise on the suitable products to our customers in accordance with their specific needs. The production process for our paper-based packaging products starts from the manufacture of corrugated carton.

1. Production process of corrugated cartons

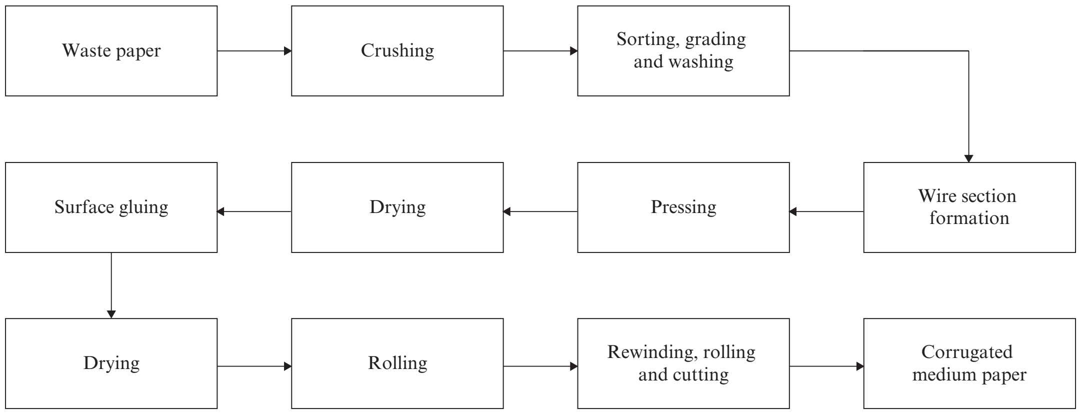


Our corrugated carton is produced by die-cutting corrugated paperboard into the required shape, and then folding and gluing it as a container box. Depending on customers' needs, our Group may also adopt flexographic printing on the surface of corrugated paperboard before die-cutting. Based on the graphic image, artwork or film provided by our customers, our Group may also perform offset printing. Offset printed paper will go through the procedures such as varnishing and lamination, and will then be bound to the paperboard and will be subsequently die-cut into the required shape, folded and glued into corrugated cartons.

2. Production process of honeycomb paper-based products



3. Production process of corrugated medium paper



- **Crushing:** the waste paper is crushed in the hydraulic pulper and waste paper fibers are dispersed under mechanical and hydraulic force to mix with water and form waste pulp.

- **Sorting, grading and washing:** impurity substances in the waste pulp, such as stones, sand, iron nails, plastic chips, plastic foam and rubber, are filtered. The waste paper fibers are graded by being separated into filament (long) and staple (short) according to their length.

- **Wire section formation:** pulp fibers are dispersed in the headbox and evenly spread on the formation wire. Moisturised paper sheets are then formed through physical filtration and dehydration and vacuum effect.

- **Pressing:** dehydration of the moisturised paper sheets continues by way of vacuum suction through mechanical pressing aided by a large-diameter roll.

- **Drying:** moisturised paper sheets are dried by evaporating the moisture in the drying cylinder using steam as the source of heating.

- **Surface gluing:** special rubber-based liquid is evenly spread on the surface of the paper sheet by the gluing machine to give the paper water resistance and enhance its surface strength and pressure resistance.

- **Re-drying:** the paper sheets are again dried by steam to evaporate the moisture caused by the rubber-based liquid in the surface gluing process.

- **Rolling:** large rolls are obtained by rolling paper sheets in the roll machine.

- **Rewinding and cutting:** large rolls are cut into different measurements according to customers' specifications and rewound to form the end product of corrugated medium paper roll.

The manufacturing process of high-strength corrugated medium paper begins with sourcing of waste paper. Collection of waste paper within the region is through one of our subsidiaries, Zhong Tang Recycling, whereas Yong Fa Paper sources raw materials mainly from Hong Kong and overseas. Paper is then placed onto our Group's corrugated medium paper production lines for recycling and production. The production processes are highly automated. Our corrugated medium paper is well known for its high-strength and low quantum that serves as high-strength raw materials for us and other manufacturers for the production of paper-based packaging products and has the effect of reducing the amount of raw materials used during the production of high-strength paper-based packaging products.

Production facilities

As at the Latest Practicable Date, our Group carried out our production activities in our paper production plant in Zhongshan, Guangdong Province, the PRC and our four paper-based packaging processing plants in Zhongshan and Zhuhai, Guangdong Province, the PRC, respectively, occupying a total gross floor area of approximately 213,800 sq.m., details of which are set forth in the table below:

Production plants		Areas of the plants	Principal products
A.	Paper-based packaging products		
	Zheng Ye Packaging (Zhongshan) Plant A	24,460 sq.m.	Flexographic printed corrugated carton
	Zheng Ye Packaging (Zhongshan) Plant B	29,240 sq.m.	Flexographic printed corrugated carton Offset printed corrugated carton
	Zheng Ye Packaging (Zhuhai) Plant	29,751 sq.m.	Flexographic printed corrugated carton
	Zheng Ye Alliance Packaging Plant	28,904 sq.m.	Honeycomb paper-based products
B.	Corrugated medium paper		
	Yong Fa Paper Plant	101,445 sq.m.	High-strength corrugated medium paper of 75 to 180 g/m^2

During the Track Record Period, the demand for our products remained stable. This is mainly due to the continuous strong growth in the demand for consumer products in the PRC, which key customers of our Group are producing, and as the demand for their products remain strong throughout these years, their needs for our paper-based packaging products continue to grow.

For our four paper-based packaging processing plants, we have eight production lines, with an aggregate annual designed production capacity of approximately 316,180,000 sq.m. of corrugated cartons and other ancillary products such as honeycomb paper-based products, six of which are for the production of corrugated cartons and the remaining two are for the production of honeycomb paper-based products. The second production line of corrugated cartons of Zheng Ye Packaging (Zhuhai) was set up in September 2010, and commenced production in December 2010. The two production lines of honeycomb paper-based products were fully set up in the first half of 2010, and began trial production on 30 September 2010 with the completion of the first sales order in December 2010. Most of the remaining production lines attained utilisation rate of more than 70% for the year ended 31 December 2010.

The following table sets forth details of the production lines, maximum designed production capacity, actual production volume and the average utilisation rate of the respective production capacity of our Group's production plants during the Track Record Period:

A. Production lines of paper-based packaging products:

(a) Zheng Ye Packaging (Zhongshan) Plant A

Production lines	Maximum designed production capacity as at Latest Practicable Date	Designed production capacity *(Note 1)*, actual production volume and utilisation rate	2008	2009	2010	Major supporting facilities
Production line #1 of corrugated cartons of 1.6 m	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	38,880	38,880	38,880	2 four colour flexographic printing machines
		Actual production volume (thousand sq.m.)	24,040	27,440	31,309	3 three colour flexographic printing machines
		Utilisation rate (%) *(Note 2)*	62%	71%	81%	1 double colour flexographic printing machine

(b) Zheng Ye Packaging (Zhongshan) Plant B

Production lines	Maximum designed production capacity as at Latest Practicable Date	Production volume and utilisation rate	2008	2009	2010	Major supporting facilities
Production line #2 of corrugated cartons of 2.2 m	15,840 sq.m./hour	Designed production capacity (thousand sq.m.)	71,280	71,280	71,280	4 four colour flexographic printing machines
		Actual production volume (thousand sq.m.)	39,730	43,970	52,836	1 double colour flexographic printing machine
		Utilisation rate (%) *(Note 2)*	56%	62%	74%	
Production line #3 of corrugated cartons of 1.6 m	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	38,880	38,880	38,880	1 six colour offset printing machine
		Actual production volume (thousand sq.m.)	23,840	25,260	29,160	2 four colour flexographic printing machines
		Utilisation rate (%) *(Note 2)*	61%	65%	75%	2 four colour offset printing machines
Production line #4 of corrugated cartons of 1.6 m *(Note 3)*	8,640 sq.m./hour	Designed production capacity (thousand sq.m.)	N/A	N/A	24,494	1 seven colour flexographic printing machine
		Actual production volume (thousand sq.m.)	N/A	N/A	19,844	1 three colour flexographic printing machine
		Utilisation rate (%) *(Note 2)*	N/A	N/A	81%	1 double colour flexographic printing machine

(c) Zheng Ye Packaging (Zhuhai) Plant

Production lines	Maximum designed production capacity as at Latest Practicable Date	Production volume and utilisation rate	2008	2009	2010	Major supporting facilities
Production line #1 of corrugated cartons of 1.8 m *(Note 4)*	16,200 sq.m./hour	Designed production capacity (thousand sq.m.)	72,900	72,900	72,900	3 four colour flexographic printing machines
		Actual production volume (thousand sq.m.)	22,610	32,040	38,638	2 three colour flexographic printing machines
		Utilisation rate (%) *(Note 2)*	31%	44%	53%	
Production line #2 of corrugated cartons of 1.4 m *(Note 5)*	10,080 sq.m./hour	Designed production capacity (thousand sq.m.)	N/A	N/A	756	2 four colour flexographic printing machines
		Actual production volume (thousand sq.m.)	N/A	N/A	416	2 three colour flexographic printing machines
		Utilisation rate (%) *(Note 2)*	N/A	N/A	55%	

(d) Zheng Ye Alliance Packaging Plant

Production lines	Maximum designed production capacity as at Latest Practicable Date	Production volume and utilisation rate	2008	2009	2010	Major supporting facilities
Production line #1 of honeycomb paper-based products of 1.6 m *(Note 6)*	960 sq.m./hour	Designed production capacity (thousand sq.m.)	N/A	N/A	115	1 line of honeycomb paper-based products
		Actual production volume (thousand sq.m.)	N/A	N/A	72	2 paper edge machines
		Utilisation rate (%) *(Note 2)*	N/A	N/A	63%	
Production line #2 of honeycomb paper-based products of 1.3 m *(Note 7)*	780 sq.m./hour	Designed production capacity (thousand sq.m.)	N/A	N/A	94	1 paper edge machine
		Actual production volume (thousand sq.m.)	N/A	N/A	62	1 cutting machine
		Utilisation rate (%) *(Note 2)*	N/A	N/A	66%	1 line of honeycomb paper-based products

Notes:

1. *Designed capacity means the annual production capacity of a production facility. It is arrived by multiplying the estimated number of days for which the relevant production facilities are in operation in a calendar year (300 days in the case of our Group, taking into account overhaul owing to routine maintenance, replacement of corrugators and other factors arising in the ordinary course of production) by the average operating speed per minute of the production facility and the average width of paper used in production.*

2. *For the production of paper-based packaging products, we can ascertain the designed production capacity of the production lines as each production line is used to produce a specific type of paper-based packaging products with pre-determined design and size specification, and adjustment to the mechanical mould and tooling of such production lines will be required from time to time, and hence, it would be most reliable and accurate to measure the utilisation rates by the actual production volume against the designed production capacity.*

3. *Production line #4 at Zheng Ye Packaging (Zhongshan) commenced production in May 2010. The production capacity from May to December 2010 was calculated on the basis of 189 days in operation.*

4. *Production line #1 of Zheng Ye Packaging (Zhuhai) commenced production in April 2007. The production capacity from April to December 2007 was calculated on the basis of 200 days in operation. The utilisation rate for this production line was relatively low during the Track Record Period because it is mainly designed and installed to serve our Group's customers in food condiment segment, and therefore it is not cost effective to adjust the production mode from time to time for the production of other paper-based packaging products*

with different requirements for the customers in other segments. As we anticipated the continuing increase in demand for paper-based packaging products in food condiment segment during the Track Record Period, we did not carry out the necessary equipment optimisation to cater for the production of paper-based packaging products for customers in other segments, and therefore this production line had not been fully utilised to its optimum capacity. In order to improve the utilisation rate of this production line, we have adjusted the customer composition of Zheng Ye Packaging (Zhuhai) by serving more household air-conditioners manufacturers. This has proven to be effective as the utilisation rate for the last quarter of 2010 has risen to 86.5%, and the utilisation rate for the year 2010 was improved to 66.6% as a result of the adjustment.

5. *Production line #2 at Zheng Ye Packaging (Zhuhai) commenced production in December 2010. The production capacity from 27 December 2010 to 31 December 2010 was calculated on the basis of five days in operations.*

6. *Production line #1 at Zheng Ye Alliance Packaging commenced production in December 2010. The production capacity from 24 December 2010 to 31 December 2010 was calculated on the basis of eight days in operations.*

7. *Production line #2 at Zheng Ye Alliance Packaging commenced production in December 2010. The production capacity from 24 December 2010 to 31 December 2010 was calculated on the basis of eight days in operations.*

Our Group anticipates future growth in the demand of the paper-based packaging products sector in the next three years, as indicated in the Packaging Report (details of which have been disclosed in the section headed "Industry overview" in this prospectus), and to capture such expected growth, we intend to, in addition to utilising our existing spare capacity and increasing the utilisation rate of our production lines, increase our production capacity by such means as disclosed in the paragraph headed "Business strategies — To establish new paper-based packaging production bases to achieve regional development — Expansion plan" in this section.

B. Production line of corrugated medium paper — Yong Fa Paper Plant

We have one production line with an aggregate annual designed capacity of approximately 220,000 tonnes corrugated medium paper, comprising three paper making machines and pulp feeding systems. We are in process of setting up the fourth paper making machine with an annual designated capacity of approximately 80,000 tonnes of 65 to 95 g/m^2 high-strength corrugated medium paper, which is scheduled to commence its operation in the second half of 2011. The paper making machines in operation attained an effective operating ratio of not less than 90% for the year ended 31 December 2010. All pulp feeding systems and paper making machines are supported by automated online quality control to ensure effective quality assurance for the products.

The following table sets forth data of our Group's paper making machines housed in Yong Fa Paper Plant as at the Latest Practicable Date:

Paper making machine	**Principal products**	**Annual designed production capacity** *(tonne)*	**Date of commencement of production**
Paper making machine #1	75 to 90 g/m^2 high-strength corrugated medium paper	60,000	April 2004
Paper making machine #2	100 to 180 g/m^2 high-strength corrugated medium paper	80,000	April 2004
Paper making machine #3	75 to 110 g/m^2 high-strength corrugated medium paper *(Note)*	80,000	May 2008

Note: *Apart from corrugated medium paper, machine #3 can also be used for the production of kraftlinerboard and other packaging paper.*

Our Group carries out monthly routine maintenance of its machines in line with industry practice, and is committed to maintaining continuous running of the paper making machines. The following table sets out the effective operating ratio (i.e. the actual and planned operating hours) of our Group's paper making machines for the periods indicated during the Track Record Period:

	2008			2009			2010		
Paper making machine	**Effective operating ratio of equipment (%)** *(Note 1)*	**Actual operating hours**	**Planned operating hours** *(Note 2)*	**Effective operating ratio of equipment (%)** *(Note 1)*	**Actual operating hours**	**Planned operating hours** *(Note 2)*	**Effective operating ratio of equipment (%)** *(Note 1)*	**Actual operating hours**	**Planned operating hours** *(Note 2)*
Paper making machine #1 *(Note 3)*	91.74%	7,534	8,213	85.91%	7,055	8,213	98.78%	7,446	7,538
Paper making machine #2	85.38%	7,012	8,213	87.68%	7,201	8,213	92.59%	7,604	8,213
Paper making machine #3 *(Note 4)*	94.56%	5,177	5,475	88.81%	6,894	7,763	91.79%	7,332	7,988

Notes:

1. *Effective operating ratio of equipment is arrived at by expressing actual operating hours as a percentage of planned operating hours. The designed production capacity of each of our paper-making machines will vary based on different market standards of weight and quality of medium corrugated paper to be produced. We are required to adjust the mechanical mould and tooling of each machines based on the expected market demand of particular type of medium corrugated paper from time to time, and it is thus difficult to set a planned production capacity for each machine. Hence, it is more reliable and accurate to measure the utilisation rates in terms of effective operating ratio by the actual operating hours against planned operating hours;*

2. *The number of planned operating hours includes hours of overhaul for scheduled maintenance and equipment upgrades;*

3. *Paper making machine #1 was overhauled for 675 hours in February 2010 for technology upgrades relating to the production of 75g/m^2 corrugated medium paper; and*

4. *Paper making machine #3 was overhauled for 450 hours in May 2009 for technology upgrades relating to trial production of kraftlinerboard. It was overhauled for 225 hours in October 2010 for technology upgrades relating to the production of 75g/m^2 corrugated medium paper.*

Our management understands and appreciates that production of corrugated medium paper and paper-based packaging products is capital intensive, and we are committed to investing resources to ensure the efficiency of our production facilities. During the Track Record Period, we invested a total of approximately RMB238.2 million in upgrading purchasing plant and machinery, which mainly included offset printers all imported from Germany and advanced flexographic printing presses available in the PRC. A new flexographic printing machine, with high resolution and high capacity, could produce fine colour corrugated carton, and can operate at an optimal speed of 250 pieces of corrugated paperboard per minute.

As at the Latest Practicable Date, our Group had a team of about 108 service technicians to maintain and repair our machinery and equipment, which generally have an average life cycle ranging from 5 to 22 years. Our Group also procures maintenance and inspection services from suppliers of our key machinery and equipment in order to ensure their proper operation.

During the Track Record Period, our Group had not suffered any losses or claims arising from material disruption to our operations.

Supporting facilities

As at the Latest Practicable Date, our Group had the following major supporting facilities:

- **truck fleets** — Each of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Yong Fa Paper has its own truck fleets, which not only ensure efficient and customer-specific delivery services, but also enable our Group to effectively control and lower our transportation costs. Our Group owned 21 trucks, 24 trucks, and 24 trucks for the three years ended 31 December 2010. The transportation costs incurred for engaging third party transportation companies accounted for approximately 29%, 25% and 32% of our total transportation costs for the corresponding period;

- **heat and electricity co-generation plant** — Yong Fa Paper has its own heat and electricity co-generation plant located in Zhongshan, Guangdong Province, the PRC, with an aggregate installed capacity of 33 MW. The heat and electricity co-generation plant provides both electric power and steam for its operation of paper manufacturing. Because of its ability to provide heat-electricity combined supply for our consumption, our Group achieves costs saving as compared to purchase costs from other utilities providers. Despite this, our Group as a whole still has to purchase electricity from third parties as a prudent measure against any interruption of electricity supply by Yong Fa Paper and also for the operations of other subsidiaries located in other parts of Zhongshan and Zhuhai, Guangdong Province, the PRC. Our Group did not purchase steam from third parties during the Track Record Period. The electricity expenses amounted to approximately RMB6.3 million, RMB5.0 million and RMB5.7 million for each of the three years ended 31 December 2010, respectively, as the transmission of the surplus electricity from the heat and electricity co-generation plant to other subsidiaries would not be cost efficient when comparing to purchasing the electricity from third parties.

  As advised by our legal advisers as to PRC law, Zhong Tang Shi Ye (before de-registration following completion of the merger by absorption by Yong Fa Paper) and Yong Fa Paper (as surviving entity following its merger by absorption of Zhong Tang Shi Ye) obtained all relevant licences and permits for the co-generation of heat and electricity for its own use. As at the Latest Practicable Date, Yong Fa Paper has been granted the licences for power generation due to the change in the entity as a result of the merger by absorption.

  During the Track Record Period:

  - we supplied some of the electricity we generated to the regional power grid operated by licensed power supply enterprise which will then supplied and sold the electricity onward to the end-users. As advised by our legal advisers as to PRC law, the supply is permitted under the PRC laws and regulations and we do not have to obtain any electricity supply licenses for such supply.

- we also, at the request of the local government for the general benefits of the community, supplied electricity to third parties where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by the licensed power grid suppliers in these areas. As advised by our legal advisers as to PRC law, we did not obtain the relevant electricity supply licence for such supply and sale of electricity, however, as the supply and sale was made at the request of the local government for the general benefits of the local community, the risk of the competent PRC authority in charge taking any action against our Group for the breach is minimal in practice.

During the period from 8 September 2010 and up to the de-registration of Zhong Tang Shi Ye on 28 October 2010 and the period from 28 October 2010 to the end of 2010, the supply of electricity by Zhong Tang Shi Ye and Yong Fa Paper as mentioned above was beyond their respective business scope as permitted under their respective business licence, which is in violation of the relevant PRC laws in requiring our business be conducted within the business scope as permitted under the business licence. As advised by our legal advisers as to PRC law, as the supply was made at the request of the local government for the general benefits of the local community, the risk of the competent PRC authority in charge taking any action against our Group for the breach is minimal in practice. As confirmed by the relevant competent PRC authorities, no action will be taken against our Group for the violation.

The earnings generated from the sale of electricity to the third parties during the Track Record Period were approximately RMB4.5 million, RMB6.2 million and RMB1.7 million respectively. Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties and the regional power grid since 1 January 2011.

As advised by our legal advisers as to PRC law, saved for the above failure in obtaining the relevant license and permits for the supply of electricity to third parties during the Track Record Period and up to the date of its de-registration on 28 October 2010 and that such supply was beyond its business scope for the period from 8 September 2010 and up to the date of its de-registration on 28 October 2010, Zhong Tang Shi Ye was not involved in any material non-compliance, claims or litigations prior to its de-registration in October 2010.

- **waste water treatment system** — the production facilities of Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Yong Fa Paper have implemented the waste water treatment system to ensure that our emission of waste water complies with the local laws requirement and assists with the reduction of our Group's water consumption;

- **shipping pier** — we have our own shipping pier at Zhongshan, Guangdong Province, the PRC next to our Group's paper production site. Our Group uses the berth mainly for delivery of coal used for power generation at our production facility. We also use it to receive direct delivery of waste paper imported from Hong Kong.

All these supporting facilities contribute to the cost savings and improve our Group's capability and control over its business and enhance our flexibility in our operations.

SALES AND MARKETING

Sales and marketing

Each of our main stream of businesses, namely the paper-based packaging products and corrugated medium paper, has its own dedicated sales department specialising in the sales of our paper-based packaging products and corrugated medium paper.

Sales of our paper-based packaging products are mainly conducted through our sales team based in our Group's packaging division headquartered in Zhongshan, Guangdong Province, the PRC. The centralisation of our sales activities facilitates the control of sales and the development of marketing strategy for various subsidiaries of our Group with a current focus in the Pearl River Delta region of the PRC.

Our sales team for corrugated medium paper is also based in Zhongshan, Guangdong Province, the PRC. With our established product brand name, potential customers looking for quality corrugated medium paper will approach our sales team. We will continue to optimise our customer mix to ensure the overall effectiveness of our Group.

Our sales force was staffed with 71 employees, 62 of them were sales representatives for our paper-based packaging products, and 9 of them were designated for the sale of our corrugated medium paper products as at the Latest Practicable Date. The sales representatives are mainly responsible for handling enquiries and orders from customers, coordinating with our Group's production department on product requirements and delivery, and providing after-sales services, including addressing enquiries on the quality of our products and receiving feedbacks from our customers. As an established brand within the industry, our Group is able to attract new business based on our reputation and ability to provide quality products. We sell most of our corrugated medium paper to manufacturers of paper-based packaging products; and our paper-based packaging products to manufacturers of consumer products in various industries such as household appliances, food condiment, motor bikes and information technology products. As we conduct our sales through our sales team, we are able to reduce costs payable to the intermediaries, obtain direct market information and provide better after-sales service to our customers.

Our sales staff are remunerated with a monthly basic salary. At the end of each year, we will adjust the salary of our sales staff that commensurate with their performance, including revenue collection from customers and quality of service.

For the three years ended 31 December 2010, we had a total of 274, 331 and 346 customers respectively, most of whom had an average of three to seven years of business relationship with our Group. During the Track Record Period, the major customers of our Group's paper-based packaging products were manufacturers of household appliances and food condiment in the PRC. The major customers of our Group's corrugated medium paper were manufacturers of paper-based packaging products in the PRC. During the Track Record Period, our Group had not suffered any losses or claims resulting from default by our customers.

The following table shows the breakdown of our Group's sales of paper-based packaging products to manufacturers of household air-conditioners, small household appliances and food condiment in the PRC during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Customer segment						
Household air-conditioners	185,907	50%	185,845	48%	335,934	59%
Small household appliances	66,960	18%	82,216	21%	117,152	21%
Food condiment	64,431	17%	77,096	20%	81,057	14%
Others	54,273	15%	43,340	11%	31,799	6%
Total	371,571	100%	388,497	100%	565,942	100%

Sales and marketing strategies

Our sales team is also responsible for conducting marketing activities and soliciting new customers. As we are aware of the importance of providing suitable products that satisfy our customers' changing demands and requirements, our sales and marketing activities are customer-oriented. During the Track Record Period, our Group conducted the following marketing activities:

(i) **Customer visits:** our Group's sales and marketing team regularly visits our customers to enable them to understand our products and our competitive advantages and to maintain good business relationship with them, collecting feedback on our Group's products as well as trends of packaging need in the process. As we select our customers based on their respective backgrounds and creditworthiness, we believe that such regular visits will enable us to provide response to their procurement needs and understand customers' trading conditions in a timely manner.

(ii) **Other promotional channels:** we carry out our marketing activities through other means, including promoting our latest information and our products through our website (**www.zhengye-cn.com**), and participating in trade exhibition or fair, where possible, to enhance our profile. Apart from participating in trade exhibition, regarding our paper-based packaging products, we also invite potential customers to visit our production plants and promote our products to the customers. For corrugated medium paper, we will visit existing and potential customers and despatch brochure introducing our products.

In addition to the abovementioned strategies, we also secure new customers through referrals from our existing customers, many of whom made recommendations based on their positive view on our product quality, efficient services and competitive pricing. Our Directors consider that this strategy by word of mouth is effective, though passive. Apart from creating stronger bonding and better relationship between our Group and our customers, this strategy helps expand our Group's customer base and this is a strong driver for us to keep up our product quality.

Pricing

Generally, we determine the price of our products with reference to a number of factors, including the estimated cost to be incurred by our Group (such as cost of raw materials, labour, distribution and overheads), target profits, prevailing market price and our relationship with the customers. Our senior management normally review the price on a monthly basis to allow us to provide preliminary quotation to our major customers based on their latest purchase forecasts.

Our Group has adopted a cost-plus pricing model for our paper-based packaging products whereby the selling price for such products was determined with a mark-up over cost of major raw materials with reference to the prevailing market price of such raw materials at the time of entering into contracts with the customers and subject to negotiation with the respective customers; whereas for our corrugated medium paper, the selling price is set by our management based on cost-plus pricing strategy with reference to the prevailing market price of the products and our costs of sales. In general, our Group is able to pass the risk of increase in raw materials costs to our customers for the paper-based packaging products, but not for the corrugated medium paper.

We believe that because of our established brand name in the domestic market in the PRC and as one of the market leaders in terms of product quality, we are able to sell our products at a competitive price when compared to other PRC domestic industry competitors.

Customers

The target customers of our paper-based packaging products are large scale manufacturers of household appliances, food condiment, information technology and consumer electronics manufacturers in the PRC. Our Group intends to build long term relationships with them, and adopts the system of placing orders for individual batches of purchase in our business. In addition, we have established a stable corrugated medium paper customer base, which we also adopt the sales model of orders for individual batches. Currently, we manufacture and sell corrugated medium paper and paper-based packaging products, major customers of which are manufacturers of corrugated paperboard and cartons and consumer products in various industries such as household appliances, food condiment, motor bike and information technology products. Our Group has established long term business relationship of approximately seven years with our major customers, such as Gree, Midea and Galanz, all of whom are the major household appliances manufacturers in the PRC.

Among these various industries, household appliances, especially household air-conditioners, is our focused market and we manufacture corrugated cartons for them, as our Directors believe that the nature our paper-based packaging products align with their sales direction, given the increasing demand for environmentally friendly household air-conditioners recently.

During the Track Record Period, our production for paper-based packaging products is driven by sales and all our Group's sales were conducted on the basis of receipt of purchase orders; whereas our sales for corrugated medium paper is driven by our production volume of various products, the mix of which was based on our estimation of market demand for these papers. To facilitate the planning of material procurement and production schedule of our Group, the sales and marketing team has maintained close communication with our major customers on their purchase forecasts and preliminary quotations of our Group.

For the three years ended 31 December 2010, sales to our Group's five largest customers represented approximately 31.1%, 40.6% and 44.8% of our Group's total revenue respectively. Our five largest customers are manufacturers of household appliances and food condiment, including Gree, Midea and Galanz. During the same period, sales to, Gree, our Group's largest customer represented approximately 12.3%, 14.3% and 19.3% of our Group's total revenue respectively.

The percentage of sales to Gree, Midea and Galanz during the Track Record Period was as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	% to total sales	*% to total sales*	*% to total sales*
Gree	12.3	14.3	19.3
Midea	6.1	6.8	8.3
Galanz	6.6	10.9	10.1

None of our Directors, their respective associates or Shareholders who will own more than 5% of the issued share capital of the Company, so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue had any material interest in any of our Group's five largest customers during the Track Record Period.

Sales terms and credit policy

During the Track Record Period, all of our Group's sales were denominated either in RMB, HKD or USD. Sales were normally settled by way of bills, telegraphic transfer remittance, cheque or cash on delivery.

We normally enter into framework sales contracts with our major customers which normally set out the delivery arrangement as well as the quality and specification as required by the customers for a term of one year. The framework sales contracts will not specify the minimum purchase volume and price. Our legal advisers as to PRC law have advised us that the provisions of the framework sales contracts are not in violation of applicable PRC laws and regulations and therefore are valid, binding and enforceable against the parties to the contract under the PRC laws. Either party to the said contract is entitled to hold each other liable for their breach of the framework sales contracts in accordance with the terms of the contract and the PRC contract law. For instance, according to the terms of some framework sales contracts entered into by our Group, our customers are entitled to take action against us, say, termination of the framework sales contract, cancellation of orders already placed or to be placed in whole or in part without giving any notification thereof, refusal to accept the delivery of goods or returns made by us, claiming compensation for the losses caused by the breach, deducting the amount claimed from the money to be payable by our customers if we are in breach of the framework sales contract. On the other hand we are entitled to suspend the delivery of the goods, claim the delay penalty as agreed and the compensation for the losses caused thereby, or terminate the contract when our customers are late in paying us for the goods in accordance with the provisions of other framework sales contracts.

In addition, in order to foster business relationships with our customers and at the same time protect our interests, our Group adopts credit policies for different customers. We principally refer to the trading and credit history of the relevant customers, their business relationship with our Group, and site visits, interviews, public information searches or investigations would be conducted by our Group on our customers. Credit period granted by our Group to our paper-based packaging product customers were 30 to 120 days and our corrugated medium paper customers were 30 to 75 days, following the day of delivery. Our sales team would refer to the weekly reports prepared by the accounting department which summarise the credit status of our customers, and follow up any outstanding payments once they fall due.

We also adopt a credit control measure. Our Group regularly prepares overdue report of trade receivables and closely monitors our collection status. When trade receivables become overdue, the responsible sales and marketing staff of our Group will contact the respective customers to follow up the collection status. Overdue reports are regularly reviewed and followed up by the responsible staff with the respective customers. Based on the results of discussion with problematic customers and our management's experience, our Group will assess if it is necessary to write-off or make provision for bad or doubtful debts and/or to terminate business relationship with those customers with long overdue balances of trade receivables. Our Group may reject purchase orders from the respective customer until full settlement of all outstanding invoices.

With the rising portion of revenue generated from the paper-based packaging products, we may face a risk of longer payment cycle as a result of longer credit period we grant to the customers of our paper-based packaging products. The longer credit period offered to our paper-based packaging products customers will likely to have an adverse impact on our working capital position.

As at each of the three years ended 31 December 2010, provision for trade receivables of approximately RMB0.2 million, RMB1.0 million and nil, representing approximately, 0.1%, 0.5% and nil of our Group's trade receivables respectively, have been made. During the same period, no bad and doubtful debts have been written off. Our Group may consider taking legal actions against customers with long outstanding balance with our Group. No legal action which has material adverse impact on our Group's financials and operations has been taken by our Group during the Track Record Period. Our Group considers that it has adopted an effective credit control measure and has not encountered material difficulty in the enforcement of debt collection during the Track Record Period.

Except for a customer of Yong Fa Paper who has defaulted in the amount of approximately RMB1.0 million which we have written off in December 2010, our Group did not experience any other default or withdrawal or request for early payment of bank borrowings, cancellation of orders, bankruptcy or default on the part of any customers and/or suppliers during the Track Record Period.

PROCUREMENT OF RAW MATERIALS AND SUPPLIERS

The principal raw material required for the production of high-strength corrugated medium paper is waste paper, and the main raw material for the production of paper-based packaging products is raw paper, which can be of various forms including kraftlinerboard and corrugated medium paper. They form the inner, outer and fluting layer of a corrugated paperboard. Local waste paper collectors are our main source of purchases for waste paper, and we also purchase waste paper from overseas suppliers.

Total cost of raw materials, including waste paper and raw paper purchased by our Group accounted for approximately 75.1%, 72.3% and 76.9% of our total cost of sales for the three years ended 31 December 2010, respectively.

Waste paper

Waste paper forms the largest raw materials component in our Group's paper production process. Our Directors believe that, as this category of raw material is the most important ingredient, the ability to source large volumes of waste paper under stable, long-term arrangements is critical to our success.

In order to maintain a stable supply and a competitive cost of waste paper, our Group sourced waste paper both within the PRC and from overseas during the Track Record Period. Zhong Tang Recycling, which has been registered with the competent authority as 再生資源回收經營者 (Recycled Resources Collecting Operator*), plays a vital role in our operational model as it is primarily responsible for the collection of domestic waste paper from a wide range of sources, including the shopping malls, community, and individual collectors within the proximity of our paper production plant in Zhongshan, Guangdong Province, the PRC and to supply the waste paper to Yong Fa Paper for its production of corrugated medium paper. Zhong Tang Recycling has in average recruited 118, 54 and 99 independent service individuals for each of the three years ended 31 December 2010, respectively, for collecting domestic waste paper in the Zhongshan region. Our legal advisers as to PRC law have advised that for individual waste paper collectors, such as scavengers, they are not required to obtain any licences or to effect filing and registration for the collection and supply of waste paper in the PRC.

Apart from relying on the supply from Zhong Tang Recycling, Yong Fa Paper also sources waste paper for its own production purpose from local packaging products manufacturers. As advised by our legal advisers as to PRC law, such local packaging products manufacturers are not "Recycled Resources Collecting Operator" and thus not required to obtain any licence for that purpose. Yong Fa Paper further imports waste paper from Hong Kong and overseas. As advised by our legal advisers as to PRC law, each overseas importer of waste paper importing waste paper to the PRC from outside of the PRC is required to obtain a Licence of Registration for Overseas Supplier Enterprise of Imported Scrap Materials (進口廢物原料境外供貨企業註冊證書) issued by General Administrative of Quality Supervision, Inspection and Quarantine of the People's Republic of China (中華人民共和國國家質量監督檢驗防疫總局) and have the imported waste paper inspected by the competent PRC authority whom will then issue the 裝運前檢驗證書 (Pre-Packing and Shipping Inspection Certificate*) prior to importing the same to the PRC. Yong Fa Paper, shall then have to present the copies of the aforesaid documents, together with its Import Licence of the People's Republic of China for Automatic-Licensing Solid Waste That Can Be Used as Raw Materials (中華人民共和國自動許可進口類可用作原料的固體廢物進口許可證) issued by MEP and other relevant documents to obtain clearance to receive the imported waste paper. On this basis, our Directors are of the view that the overseas suppliers of waste paper of our Group have obtained all the requisite licenses and certificates for importing waste paper to the PRC in accordance with the PRC laws and regulations and the management of our Group will ensure that our overseas suppliers will have obtained such valid licenses and certificates before entering any transactions with them.

To select additional suppliers, our Group's sourcing department compares the quality and price of waste paper from major suppliers in the region and appraise each supplier's credentials in satisfying our requirements. Currently, the majority of our Group's waste paper comes from individual local paper collectors in Zhongshan, Guangdong Province, the PRC, as our Group has found the quality of such waste paper to be relatively more consistent compared to other sources.

Approximately 54%, 60% and 58% waste paper was sourced within the PRC and the remaining was from overseas during the three years ended 31 December 2010, respectively. During the Track Record Period, the average purchase price of the waste paper sourced within the PRC was approximately RMB1,172 per tonne, RMB824 per tonne and RMB1,281 per tonne for the three years ended 31 December 2010, respectively; whereas the average purchase price of the waste paper sourced from overseas was approximately RMB1,376 per tonne, RMB841 per tonne and RMB1,264 per tonne, respectively, for the same period.

Price of waste paper is volatile in nature and is generally subject to fluctuation of the world's market conditions. Please refer to the paragraph headed "Prices of raw paper and waste paper" in the section headed "Industry overview" in this prospectus.

For the three years ended 31 December 2010, amongst the cost of sales, the cost of waste paper was approximately RMB319.7 million, RMB231.5 million and RMB371.4 million, representing approximately 58.0%, 53.0% and 55.7% of our Group's total raw material cost, respectively.

Raw paper

We use various types of raw paper, which includes corrugated medium paper and kraftlinerboard as raw materials for our production of paper-based packaging products.

While we purchase a substantial portion of the raw paper from third party suppliers, we also purchase high-strength corrugated medium paper from Yong Fa Paper, which we believe, could provide and ensure the stable supply of quality corrugated medium paper for our paper-based packaging business. The total purchase of raw materials from Yong Fa Paper accounted for approximately 26%, 33% and 29% of the total raw materials for paper-based packaging products during the three years ended 31 December 2010, respectively.

It is our Group's objective to source corrugated medium paper, one of the major raw materials for paper-based packaging products, internally through Yong Fa Paper to Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging for the production of the paper-based packaging products with a view to ensuring the product quality and stability of supply. Hence, our Group prioritises internal sourcing of corrugated medium paper. Our Group, however, will still purchase corrugated medium paper from third parties if any of our Group's customers require corrugated medium paper of lower quality or with such specific requirement for which we do not produce. We only consumed 24%, 10% and 27% of corrugated medium paper from third parties during the three years ended 31 December 2010, respectively.

For the three years ended 31 December 2010, our Group's total cost of raw paper amounted to RMB178.6 million, RMB150.1 million and RMB244.8 million, representing 32.4%, 34.4% and 36.7% of our Group's total purchases of raw materials for production, respectively, during these periods.

Other raw materials

Our Group also uses starch, aluminum sulfate, ink, water resistant chemicals and reinforcing chemicals in our production. Currently, we source these kinds of raw materials from a number of suppliers. Our Directors consider that these materials are readily available in the market and we do not face a significant problem in sourcing these raw materials.

Suppliers

In order to obtain better pricing terms from our suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials, and coal. We have a total of 467, 412 and 543 suppliers for the three years ended 31 December 2010, respectively and they have an average of three to seven years of business relationship with our Group. As we maintain good relationship with our suppliers, we can benefit from assured quality, competitive purchase prices and in-time deliveries, which, in turn, leads to reduction of inventory costs. During the Track Record Period, we did not experience any material shortage of the principal raw materials. During the Track Record Period, our Group's major suppliers were companies selling raw paper, and waste paper and coal. As the raw materials required by our Group are not rare or difficult to source, our Directors do not anticipate any material difficulties in sourcing them. Our Group has not entered into any long-term agreements with the suppliers.

During the Track Record Period, our Group's purchases were denominated in RMB, HKD and USD. Purchases are mainly settled by open accounts with credit period ranging from 30 to 120 days upon receipt of the relevant bills from the PRC and Hong Kong suppliers. Raw materials for the paper-based packaging products would normally be settled within 30 days; whereas for the corrugated medium paper business, raw materials sourced locally would be settled by cash within 15 days of delivery, and those sourcing from overseas would normally be settled within 30 to 120 days.

For the three years ended 31 December 2010, purchases from our Group's five largest suppliers accounted for approximately 40.6%, 52.5% and 49.8% respectively of our Group's total purchases. Purchases from the largest supplier of our Group accounted for approximately 11.2%, 17.6% and 16.8% respectively of our Group's total purchases during the same period. None of our Directors, their respective associates or shareholders who will own more than 5% of the issued share capital of the Company, so far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue had any material interest in any of our Group's five largest suppliers during the Track Record Period.

INVENTORY MANAGEMENT

Our Directors understand the importance of inventory management so as to keep our operation costs and risks at a low level, and we adopt stringent procedures to monitor the inventory levels of our raw materials, work-in-progress and finished goods, in order to balance our production needs and our exposure to changes in raw materials prices and to optimise the allocation of our internal resources.

Our inventory of raw materials comprises primarily raw paper and waste paper. We generally maintain raw materials at a level sufficient for the production of at least 15 days of paper-based packaging products and keeps raw materials at a level sufficient for the production of at least 10 days of corrugated medium paper. In terms of finished goods, as the paper-based packaging products of our Group will only be produced when our Group has received an order, the finished goods will be delivered to our customers' production base as soon as they are produced. For our corrugated medium paper, the finished goods will normally be sold out within 10 to 20 days after production.

As at 31 December 2010, our inventory was approximately RMB103.8 million.

We have implemented an inventory management system, which enables us to monitor the stock movement of the raw materials and work-in-progress. Our Group will monitor the stock aging analysis and performs monthly full stock takes for all inventories to assess the level of obsolete stocks. Impairment will be charged for any obsolete or damaged inventories identified during the stock takes. During the Track Record Period, our Group did not record any obsolete stocks and thus we did not made any provisions for inventory obsolescence during the Track Record Period.

As a step to enhance our inventory control, we have implemented an ERP system for our operations in Zhongshan, Guangdong Province, the PRC since 2003, to manage, control and track all aspects of operations, including inventory control, operation and maintenance of the paper machines, quality control of our products, sales and delivery of our products through our internal transportation and delivery network.

At present, each of our subsidiaries has adopted its own ERP system to cater for its needs. To further cope with our expansion, we plan to implement a centralised ERP system which could consolidate our Group's production, streamline our operation and improve our corporate governance.

ENVIRONMENTAL PROTECTION

We recognise the importance of environmental protection and adopt stringent environmental protection measures with a view to reducing the impact of our operations on the environment and the risk of exposure to liabilities under the prevailing PRC environmental protection laws and regulations.

Our production operations are subject to the national environmental protection laws and regulations and rules promulgated by the local governments in the jurisdictions where our production facilities are located in the PRC, including《中華人民共和國環境保護法》(Environmental Protection Law of the PRC*),《中華人民共和國環境影響評價法》(Laws of the PRC on Appraising of Environment Impacts*), 《建設項目環境保護管理條例》 (Administrative Regulations on Environmental Protection for Construction Project*),《中華人民共和國水污染防治法》(Law of the PRC on the Prevention and Control of Water Pollution*),《中華人民共和國大氣污染防治法》(Law of the PRC on the Prevention and Control of Atmospheric Pollution*),《中華人民共和國環境噪聲污染環境防治法》(Law of the PRC on Prevention and Control of Environmental Noise Pollution*),《中華人民共和國放射性污染防治法》(Law of the PRC on Prevention and Control of Radioactive Pollution*),《排污費徵收使用管理條例》(Management Regulations or Collection and Use of Sewage Charges*),《中華人民共和國固體廢物污染環境防治法》(Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes*) and《廢物進口環境保護管理暫行規定》(Interim Provisions on Environmental Protection Management For The Import of Wastes). Please refer to the paragraph headed "Regulatory overview — Environmental protection" of this prospectus for summaries of certain PRC policies, laws and regulations applicable to paper making and printing industry.

We strive to conduct our business in a manner that we comply with the applicable PRC environmental laws and regulations and, to the practicable extent, minimise any adverse effect on the environment to fulfill our social responsibility as a responsible enterprise. We have obtained governmental confirmation certifying our compliance with the applicable environmental laws and regulations for our production plants.

Since 2005, Zheng Ye Packaging (Zhongshan) has been accredited with the internationally recognised ISO 14001 certification in respect of the environmental management systems.

We have conducted different measures to ensure compliance with applicable PRC laws and regulations, in particular:

(i) checking and monitoring measures: we put in place internal procedures to conduct regular checks on our environmental management system and Zheng Ye Packaging (Zhongshan) has been in compliance with the standards of ISO 14001 and Yong Fa Paper has set up a "環保辦公室 (Green Office*) " dedicated to design and implement environment protection measures of our Group since 2004;

(ii) prevention of pollution: we constantly evaluate different aspects of our production process, including our facilities, raw materials, utilities and packaging materials, so as to ensure compliance with environmental regulations, we reuse processed waste water, as much as practicable to reduce pollution. We also have on-site treatment facilities for waste water, air and noise generated from our operations before they are discharged. We have also installed electrostatic precipitation and flues gas desulfurization system to ensure the gas emitted from our own coal-power generation plant comply with the national standard;

(iii) reduce, control of discharge or emission: we reuse waste water processed by our own sewage treatment facilities, as much as practicable to reduce waste water discharge. We also recycle the substandard paper and paperboard products again as raw material for our paper making operations; and

(iv) staff awareness: we aim at arousing the awareness for environmental protection among our staff through disseminating our environmental philosophy through training and education.

In recognition of our continuous effort in adopting environmental protection measures, Zhong Tang Shi Ye prior to its absorption by Yong Fa Paper, has been recognised as "中山市環保誠信企業" (Zhongshan City Environmental Integrity Enterprise*) by Zhongshan Environmental Protection Bureau since 2006.

QUALITY CONTROL

We believe that quality control is essential to the continuous growth of our business. Our Group adopts stringent internal quality control measures to ensure that products can meet the required quality standard and adhere to customers' specifications before delivery. In addition to investing in machinery and equipment from time to time to enhance production efficiency and product quality, we have applied the quality management guidelines or principles of ISO 9001 throughout our quality control system.

Through the dedication of our management and staff to quality control in its business management and operations, Zheng Ye Packaging (Zhongshan) obtained the accreditation of ISO 9001 in November 2005, whereas Yong Fa Paper and Zheng Ye Packaging (Zhuhai) were accredited with ISO 9001 in February 2009 and July 2007, respectively.

We have implemented a comprehensive and effective quality control system covering important stages of the production process and other aspects of our business.

Raw materials

Since the quality of our finished products is, to a large extent, determined by the quality of raw materials, all raw materials are sourced from reliable suppliers. Incoming raw materials are subject to detailed physical inspection according to our strict specifications on a random sampling basis before they are warehoused or enter into our production line.

Production process

All our paper production lines are operated by highly automated quality control system which systematically monitor production parameters such as moisture, and basis weight of the sheets, thus allowing us to maintain consistent product quality, increase production efficiency and minimise disruption of the production process. In addition, we will also scrutinise our paper and paper-based packaging products for quality control purposes at milestone stages throughout the production process to minimise the chance of impact of defective production. For instance, our quality control staff will conduct regularly check to ensure that it will produce the paper and paper-based packaging products of the same specifications as ordered by our customers.

Finished goods

Samples of finished goods are regularly checked by our quality control staff after the cutting process before they are forwarded onwards for packaging. We typically take samples of finished products for testing of various physical properties, including strength, thickness, water absorption ability and basis weight as applicable, to ensure that our products meet the required specifications. Our Group has set our sights in capturing orders from certain renowned customers which export their products to overseas, such as the European countries and the United States, for which we would have to meet certain compliance standards of those countries, our Group will arrange regular compliance testing on our paper-based packaging products.

As at the Latest Practicable Date, our quality control department, which is led by 16 engineers who oversee both the research and development and quality control departments, has deployed 358 staff members engaged in testing and quality control activities ancillary to our production process. We provide on-the-job training to our quality control staff from time to time to ensure that they are equipped with up-to-date knowledge to carry out their duties competently and in compliance with our quality control system implemented under the guidelines or principles of ISO 9001. We also hold monthly internal meetings amongst different departments to discuss quality control issues. Problems encountered by production staff during the production process would be discussed and appropriate steps and remedial actions will be taken to improve quality of our products and enhance efficiency of our productions in future.

As a result of the ongoing stringent quality control procedures, we had not experienced any significant product returns during the Track Record Period. This demonstrates that we are committed to continual improvement in our product quality. Our Directors also confirm that we had not received any material complaint on our product quality during the Track Record Period.

Our Directors believe that our Group has maintained a good reputation for product quality among our customers and taken continuous effort to be an environmental responsible organisation.

RESEARCH AND DEVELOPMENT

Our Directors believe that continuous technical advancements in terms of processing technology and product development, so as to satisfy the needs of our customers, is one of the key drivers to future success in the paper and packaging industries, as it is constantly subject to change in terms of product quality and the demand for new specifications.

We have been dedicated to enhancing product innovation and improving production efficiency through research and development since our establishment. Our research and development initiatives focus on the improving efficiency of our production process and the productivity of the machines, the development of new products and enhancement of the quality of our existing products, and the enhancement of the ability of the production technologies in satisfying a wider range of customer requirements in a cost efficient and profitable manner. In recognition for our technological capabilities in paper making and packaging production, both Yong Fa Paper and Zheng Ye Packaging (Zhongshan) were recognised as high-technology enterprises jointly by four provincial authorities of Guangdong Province including 廣東省科學技術廳 (Guangdong Province Science and Technology Bureau*) in November 2009 and December 2009, respectively. Our research and development capability was recognised by Guangdong Paper Industrial Research Institute (廣東省造紙研究所) which invited Yong Fa Paper to participate in the drafting and editing of the national standards of corrugated medium paper in China in 2007.

Our research and development department would team up with colleagues from other departments if and when necessary for each research and development project. Yong Fa Paper has established a 包裝用紙技術工程研發中心 (Packaging Paper Technology Engineering Research and Development Centre*) dedicated to develop paper suitable for use as packaging material improve paper quality and the paper making process. Zheng Ye Packaging (Zhongshan) has also set up its own research and development department in 2010, named 包裝產品工程技術研究開發中心 (Packaging Products Technology Engineering Research and Development Centre*), to strengthen our Group's research and development capability. The centre is led by a team of five experienced staff with an average of 15 years of industry experience, and among whom two are engineers. For the three years ended 31 December 2010, our Group applied approximately RMB8.6 million, RMB8.4 million and RMB12.3 million, respectively, in the research and development activities, including the development of new products and enhancement of production efficiency. In general, the budgeted research and development expenses is expected to be approximately 3% of our Group's total sales. Based on the available budget, the research and development team will decide on the number of projects to be undertaken for that year, identify the scope for each project and staff with the relevant experience from different divisions within our Group will be called upon to join the projects, under the supervision of the research and development team. The research and development team will submit costing reports of each research and development project periodically to the finance department for monitoring purpose. As at the Latest Practicable Date, our Group has applied for seven patents for paper making process. Our Group's research and development team is continuously searching for and testing new raw materials and new production processes and works closely with our Group's sales team. It receives production specifications from the sales team, develops adjustments to existing products to satisfy customers' requirements and studies the feasibility of making such changes.

We value and take initiatives to collect our customers' views and feedbacks in relation to our products, which we would consider for our research and development efforts. At present, our research efforts are focusing on paper-based packaging materials which can substitute traditional packaging materials such as foam and plastic which are generally considered to cause unfavourable effects on the environment. Bringing these new products to the market will not only allow us to meet general market demand but will also enable us to diversify our product range. Capitalising on our capability in producing high-strength corrugated medium paper, we intend to produce paper-based packaging products with innovative and advanced technical properties to allow weight, raw materials and transportation costs savings in order to compete with the traditional corrugated paperboard or cartons.

In addition to developing new products, we also improve our process technology of our existing products to better meet our customers' quality standards, to improve production efficiency and techniques, and to lower the rate of raw materials consumption and waste discharge and production costs. This approach will reduce our production costs and give us a strategic advantage over many of our competitors and would also signify our efforts to conduct our business in accordance with high standards of environmental protection, in line with our environmental policies and standards.

We have in the past entered into collaboration with South China University of Technology (華南理工大學) in respect of enhancing efficiency and technology know-how in the paper making process and we value the benefits such collaboration can bring to us. We also plan to seek to expand our research and development capability by forming strategic collaboration with established academic institutions in future, which will be able to provide us with readily available technical expertise and would thus bring new progress to, among others, our operation, in particular product development, production efficiency and quality control.

COMPETITION

We face intense competition with competitors across the PRC and elsewhere. Our major competitors include several Chinese manufacturers of corrugated medium paper and corrugated cartons. In addition, we are also competing with manufacturers of corrugated medium paper and corrugated cartons in other places, including other overseas paper mills. Price, product quality, stability in supply and being able to improve our products from time to time, our Directors believe, are the main elements to excel in this highly competitive market.

Barriers for new entrants to the paper making industry is, however, high. We believe that the high start-up cost, capital intensive nature of, environmental concerns and constraints in raw material supplies in the paper manufacturing industry all contribute significantly to such entrance barriers. Since 2007, paper making factories in the PRC were subject to stringent environmental requirements regarding the emission of waste water. In order to comply with such requirements and remain commercially viable, papermaking factories would need to upgrade or replace their papermaking machines and/or establish water treatment facilities to reduce the amount of waste water produced during the production process. Unless the production scale is sizeable, such upgrading or replacement may not be cost-effective and would result in higher production cost, thereby driving some of our peers in the industry out of the business and reducing level of competitiveness.

Under the PRC's foreign investment rules, foreign investments in recycled paper and paper-based packaging manufacturing business are permitted. Foreign companies may establish recycled paper manufacturing operations in the PRC in the future, in which case we may face more competition.

Despite the above obstacles in entering and staying in business in our industry, there may be certain manufacturers with substantially more capital and resources for research and development, higher production capacity and better marketing capability than those of our Group. As the PRC continues to open itself up to foreign businesses, the paper market in the PRC is expected to be impacted by an increasing number of foreign-owned enterprises in the PRC. These will further intensify competition. Our Directors are, however, of the view that given the competitive advantages of our Group, details of which are set forth under the paragraph headed "Competitive strengths" above, our Group is well-positioned to face any competition.

We strive to maintain our competitiveness through timely introduction of new products and continuous improvement of our existing products. We are the largest supplier of paper-based packaging products for household air-conditioners in the PRC in terms of production volume for the year ended 31 December 2009.

As we are located in proximity to a number of local waste paper collectors, we believe we can maintain a steady supply of waste paper for our manufacturing purposes, which our Directors consider it provides us with a competitive advantage over our competitors in recycled corrugated medium paper and paper-based packaging products industry. In addition, we strive to maintain our competitive edge through timely introduction of new products and continuous improvement of our existing products. We will continue to devote our resources to research and development for new and existing products and our techniques in the production process. With a broad range of products and our commitment to research and development, our Directors consider that we are well-positioned to establish ourselves as one of the leading suppliers of corrugated medium paper and paper-based packaging products.

Please refer to the section headed "Industry overview" in this prospectus for the discussion of the competition that we face in the markets that we operate in.

INSURANCE

We maintain a range of insurance policies for our ongoing operations including property insurance on plants and machinery, natural disaster insurance and personal injury insurance. We also provide social insurance for our employees in compliance with the relevant PRC social security regulations, such as insurance for retirement, unemployment, sickness and industrial injuries suffered by our employees. Under PRC laws and regulations, we are not required to maintain any insurance in relation to our business operations, such as business interruption insurance, or product liability insurance against claims or liabilities that may arise from products that we have sold. Our Directors consider that our Group's insurance coverage is sufficient and in line with the normal commercial practice in the PRC. We did not experience any material industrial accidents during the Track Record Period. During the Track Record Period, our Group has not suffered any losses or claims arising from employee injury claims.

PROPERTY

Owned properties

As of the Latest Practicable Date, we owned six parcels of land with a total site area of approximately 426,418.46 sq.m. and the buildings and structures erected thereon with a total gross floor area of approximately 120,946.43 sq.m. in the PRC. Our existing production lines, warehouses and head office premises are currently housed in these buildings. We have obtained the relevant land use rights certificates of such parcels of land and the building ownership certificates and all relevant approvals for the buildings erected thereon comprising a total gross floor area of approximately 78,880.55 sq.m. and own the full legal rights to use and assign these properties. The current usages of these properties are in compliance with the approved usages prescribed in the title documents. Our Directors consider that these properties are crucial to our operations since all of our existing operational and production facilities are housed therein.

With regard to the buildings used by us comprising a total gross floor area of approximately 42,065.88 sq.m., we have failed to obtain the relevant planning permits and construction permits in relation to their construction and/or failed to submit the construction projects for quality and completion check by the relevant PRC authorities. Please refer to the paragraph headed "Risk factors — Risks relating to our business — We face certain risks relating to the real properties we owned or leased" of this prospectus for further details and the risks that we may face as a result of such failure.

Leased properties

As of the Latest Practicable Date, we leased two industrial complexes in the PRC with a total gross floor area of approximately 47,225 sq.m. from Zheng Ye Group, three buildings used as our workshop and warehouses in the PRC with a total gross floor area of approximately 12,332 sq.m. from an Independent Third Party, one warehouse in the PRC with a total gross floor area of approximately 4,392 sq.m. from an Independent Third Party, and one industrial complex with a total gross floor area of approximately 28,904 sq.m. from an Independent Third Party, an office in the PRC with a total gross floor area of approximately 40 sq.m., and an office in Hong Kong with a total gross floor area of approximately 1,171 sq.ft. as more particularly set out in Appendix III to this prospectus. According to our legal advisers as to PRC law, each of our landlord owns the land use right of, and has the legal right to lease, the respective lands and buildings save and except those lands and buildings as more particularly stated in the paragraph headed "Risk factors — Risks relating to our business — We face certain risks relating to the real properties we owned or leased" of this prospectus. In this connection, Yong Fa Paper has obtained a confirmation letter dated 12 November 2010 from the relevant lessor, 中山市黃圃鎮工業開發有限公司 (Zhongshan City Huang Pu Town Industrial Development Limited*) in which the lessor has undertaken to fully indemnify Yong Fa Paper for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period. Zheng Ye Packaging (Zhongshan) has obtained a confirmation letter dated 29 October 2010 from the relevant lessor, 中山市東升永勝經濟發展公司 (Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited*) in which the lessor has undertaken to fully indemnify Zheng Ye Packaging (Zhongshan) for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period. Zheng Ye Alliance Packaging has obtained a confirmation letter dated 29 October 2010 from the relevant lessor, 中山市東升鎮白鯉村第七經濟合作社 (Zhongshan City Bai Li Town Villager Committee*) in which the lessor has undertaken to fully indemnify Zheng Ye Alliance Packaging for any penalties or losses arising from any disputes or punishment in relation to the use of the leased premises during the leasing period.

INTELLECTUAL PROPERTY RIGHTS

To protect our proprietary rights, we rely upon the applicable patent and trademark laws, laws relating to protection of other intellectual property rights. We own and use a number of trademarks and designs in connection with our business and seek to protect our intellectual property rights by imposing confidentiality obligations on employees in our research and development department and on our senior staff in the sales department. For details of our intellectual property rights which are material to our business, please refer to the paragraph headed "Further information about the business of our Company — 10. Intellectual property rights of our Group" in Appendix V to this prospectus.

Our Directors confirm that, as at the Latest Practicable Date, we were not involved in any proceedings in respect of, and we have not received any notice of any claims of infringement of, any intellectual property rights that may be threatened or pending, in which we may be involved whether as claimant or respondent.

AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of significant awards and recognitions with respect to our Group or products. Set out below are some of our major awards and recognitions:

Date of issue	Recipient	Awards or recognitions	Awarding bodies	Validity
December 2004	Zheng Ye Packaging (Zhongshan)	Best Supplier 2004 *(Note 1)*	Midea	Not applicable
18 November 2005	Zheng Ye Packaging (Zhongshan)	ISO 14001: 2004 Standard *(Note 2)*	China Quality Mark Certification Group	Three years
18 November 2005	Zheng Ye Packaging (Zhongshan)	ISO 9001: 2000 Standard *(Note 3)*	China Quality Mark Certification Group	Three years
November 2005	Zheng Ye Packaging (Zhongshan)	Golden Supplier 2005 *(Note 1)*	Midea	Not applicable
20 April 2006	Zheng Ye Packaging (Zhongshan)	China Leading Packaging Enterprise *(Note 4)*	China Packaging Federation	Three years
May 2006	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit *(Note 5)*	Zhongshan Administration for Industry & Commerce	Not applicable
2 February 2007	Zheng Ye Packaging (Zhongshan)	Best Supplier 2006 *(Note 1)*	Panasonic Home Appliances Air-Conditioning (Guangzhou) Company Limited	Not applicable
June 2007	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Two Consecutive Years) *(Note 5)*	Zhongshan Administration for Industry & Commerce	Not applicable
23 July 2007	Zheng Ye Packaging (Zhuhai)	ISO 9001: 2000 Standard *(Note 6)*	China Quality Mark Certification Group	Three years
June 2008	Yong Fa Paper	中國瓦楞芯紙產業十大著名品牌 (China Corrugated Medium Paper Business Top 10 Brand*) *(Note 7)*	中國市場檢測中心及中國市場研究中心 (China Market Monitoring Center and China Market Research Center*)	Not applicable

Date of issue	Recipient	Awards or recognitions	Awarding bodies	Validity
July 2008	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Three Consecutive Years) *(Note 5)*	Zhongshan Administration for Industry & Commerce	Not applicable
30 December 2008	Zheng Ye Packaging (Zhongshan)	ISO 14001: 2004 Standard *(Note 2)*	China Quality Mark Certification Group	Three years
30 December 2008	Zheng Ye Packaging (Zhongshan)	ISO 9001: 2000 Standard *(Note 3)*	China Quality Mark Certification Group	Three years
2008	Zheng Ye Packaging (Zhongshan)	Quality Trustworthy Supplier 2008 *(Note 1)*	Galanz	Not applicable
4 February 2009	Yong Fa Paper	ISO 9001: 2008 Standard *(Note 8)*	Guangdong Zhongjian Certification Company Limited	Three years
July 2009	Zheng Ye Packaging (Zhongshan)	Enterprise of Observing Contract and Valuing Credit (For Four Consecutive Years) *(Note 5)*	Zhongshan Administration for Industry & Commerce	Not applicable
November 2009	Zheng Ye Packaging (Zhongshan)	Strategic Supplier 2009 *(Note 1)*	Midea	Not applicable
2009	Zheng Ye Packaging (Zhongshan)	Strategic Supplier 2009 *(Note 1)*	Galanz	Not applicable
10 November 2009	Yong Fa Paper	High Technology Enterprise in Guangdong Province *(Note 9)*	廣東省科學技術廳 (Guangdong Science and Technology Department*)	Three years
14 December 2009	Zheng Ye Packaging (Zhongshan)	High Technology Enterprise in Guangdong Province *(Note 9)*	廣東省科學技術廳 (Guangdong Science and Technology Department*)	Three years
February 2010	Zheng Ye Packaging (Zhongshan)	Core Supplier 2010 *(Note 1)*	Galanz	Three years
30 March 2010	Zheng Ye Packaging (Zhuhai)	ISO 9001: 2008 Standard *(Note 6)*	China Quality Mark Certification Group	Three years
31 March 2010	Yong Fa Paper	2003至2009年度優等瓦楞芯紙檢測合格 (Corrugated Medium Paper Achieved Excellent Standard from 2003 to 2009*) *(Note 4)*	國家輕工業紙張質量監督檢測廣州站 (China National Light Industry Paper Quality Supervision and Inspection, Guangzhou Division*)	Not applicable
16 December 2010	Zheng Ye Packaging (Zhongshan)	SA8000: 2008 *(Note 10)*	SGS Italia S.p.A	Three years

Notes:

1. *In recognition of our Group as a reliable supplier as assessed by our major customers.*

2. *Certificate scope: production of paper and plastic packing products (corrugated fiberboard, corrugated box, coloured paper, colour printing box) and relevant management activities. The issue of such certificate represents that the environmental management system of Zheng Ye Packaging (Zhongshan) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*

3. *Certificate scope: design and production of paper and plastic packing products (corrugated fiberboard and corrugated box) and relevant management activities. The issue of such certificate represents that the quality management system of Zheng Ye Packaging (Zhongshan) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*

4. *Please refer to the section headed "Definitions" of this prospectus for the credential of the award and the background and standing of the awarding body.*

5. *Assessed by Zhongshan Administration for Industry & Commerce in accordance with the "Measures for the Examination and Nomination of Contract-Honouring and Trustworthy Enterprises of Guangdong" as approved by the People's Government of the Guangdong Province.*

6. *Certificate scope: production and sales of corrugating medium and relevant management activities. The issue of such certificate represents that the quality management system of Zheng Ye Packaging (Zhuhai) has been audited and verified by the issuing organization that it conforms to the requirements specified in the standard.*

7. *Certified by China Market Monitoring Centre and China Market Research Centre in accordance with "2008 Ranking of Best-Selling Corrugated Paper Products in China," which is published on the website of China Market Monitoring Centre.*

8. *Certificate scope: design and production of paper and plastic packing products (corrugated fiberboard and corrugated box) and relevant management activities. The issue of such certificate represents that the quality management system of Yong Fa Paper has been audited and verified by the issuing organization that it confirms to the requirements specified in the standard.*

9. *Jointly certified by Guangdong Science and Technology Department, Department of Finance of Guangdong Province, Guangdong Provincial Office SAT and Guangdong Provincial Local Taxation Bureau in accordance with the "Method for the Certification, Appraisal and Renaming of Hi-tech Enterprises in Guangdong".*

10. *Certificate scope: manufacture, selling and supply of package products. The issue of such certificate represents that the management system of Zheng Ye Packaging (Zhongshan) has been assessed and certified by the issuing organization that it conforms to the requirements specified in the standard.*

LEGAL AND REGULATORY MATTERS

Save for the inadvertent breaches of certain of the laws and regulation as disclosed in this prospectus that are material in nature and more particularly summarised below, we have been advised by our legal advisers as to PRC law that members of our Group in the PRC have been engaged in their respective businesses within the permitted scopes since their establishment and have obtained all requisite licences, permits, certificates or approvals which are necessary for their business operations and were valid and effective during the Track Record Period and up to the Latest Practicable Date and that our Group has complied with the applicable laws and regulations in the PRC in all material respects and, as advised by our legal advisers as to Hong Kong law, in Hong Kong in all material aspects insofar as our business operations are concerned and have not been penalised by any national or local authorities for the violations of applicable laws and regulations in the PRC and Hong Kong, which are of material importance or could have a material adverse effect on our results of operations:

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Yong Fa Paper	Failed to obtain the relevant planning permits, construction commencement permits for the construction projects and failed to submit the construction projects for quality check and acceptance procedures for 45 buildings and structures that are owned by us with a total gross floor area of approximately 42,066 sq.m..	These 45 buildings and structures were old buildings acquired by Zhong Tang Shi Ye in 2000 and have been used mainly for storage and as other ancillary facilities since the acquisition. Among these 45 buildings, 26 of them are of no commercial use to our Group and are to be demolished before 31 December 2012; and the remaining 19 buildings can be put into proper use by our Group for after renovation, and in this connection, we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures.	As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish these buildings and could also be liable to a fine of (a) up to a maximum of 10% of the construction costs which amounted to RMB556,200 in respect of the buildings that we have failed to obtain the planning permits for their construction works; (b) up to a maximum of 2% of the contractual price which amounted to RMB96,052 in respect of buildings that we have failed to obtain the commencement permit for their construction; and (c) up to a maximum of 4% of the contractual price which amounted to RMB192,104 respect of buildings that we have failed to undertake the completion acceptance checks.	We have undertaken to the relevant PRC authorities that we will demolish 26 buildings with a total gross floor area of approximately 17,105 sq.m. by 31 December 2012; while for the remaining 19 buildings we will apply for the planning permits, commencement permits and submit the buildings for planning and quality check and acceptance procedures. If we fail to obtain the planning permits, commencement permits or the planning and quality check and acceptance from the relevant PRC authorities for any of these 19 buildings, we will demolish such building by 31 December 2012. The estimated cost to demolish all these 45 buildings is approximately RMB0.5 million. As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal if we demolish those buildings by 31 December 2012 as we have undertaken to the relevant PRC authorities.	No provision has been made as we received two confirmation letters issued by 中山市黃圃鎮規劃管理所 (Zhongshan City Huangpu Town Planning Management Centre*) and 中山市黃圃鎮建設管理所 (Zhongshan City Huangpu Town Construction Management Centre*) dated 30 November 2010, confirming that no action will be instituted against us and no penalty will be imposed on us for the non-compliance subject to us fulfilling the aforesaid undertaking. We have been advised by our legal adviser as to PRC laws that each relevant management centre is competent to issue the confirmation. We have further obtained a confirmation letter from 中山市城鄉規劃局 (Zhong Shan Shi Cheng Xiang Gui Hua Ju*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Planning Management Centre (中山市黃圃鎮規劃管理所) and a confirmation letter from 中山市住房和城鄉建設局 (Zhongshan City Housing and Urban and Rural Construction Bureau*) confirming it has no objection to the decision of Zhongshan City Huangpu Town Construction Management Centre (中山市黃圃鎮建設管理所), both dated 14 February 2011.

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Zheng Ye Packaging (Zhongshan)	Failed to obtain planning permit and submit the construction works for quality check and acceptance procedures for a canteen.	Due to the indistinct feature and size of this structure which is a passageway connecting two buildings and obscured by the surroundings, we failed to obtain the planning permit and submit the construction works for quality check and acceptance procedures of this structure due to oversight.	As advised by our legal advisers as to PRC law, we could be ordered by the relevant PRC authorities to demolish our canteen and could be liable to a fine of (a) up to a maximum of 10% of the construction costs of our canteen which amounted to RMB1,015; (b) a fine up to a maximum of 4% of the contractual price which amounted to RMB406 for the construction of the canteen; and (c) to make compensation if damage is caused to other parties.	We intend to demolish the canteen before June 2011. The structure is a simple one and we intend to demolish the canteen on our own. No additional cost is expected to incur.	No Provision has been made due to immaterial impact to the Company.
Zheng Ye Packaging (Zhuhai)	Failed to undertake the completion acceptance check for a building used as mailroom.	As the mailroom was of small scale and that there had been changes in personnel responsible for the relevant procedures, we failed to designate capable staff in handling compliance work with respect to the local regulations in respect to undertake the completion acceptance check for the mailroom.	As advised by our legal advisers as to PRC law, we may be ordered to take remedial action and be subject to a fine of up to a maximum of 4% of the contractual price for the construction of the mailroom which amounted to RMB5,153 and to make compensation if damage is caused to other parties.	Zheng Ye Packaging (Zhuhai) is in the course of completing the completion acceptance check and expects to obtain such certificate by 30 May 2011. As advised by our legal adviser as to PRC law, there is no legal impediment for us to obtain the certificate for completion acceptance check.	No Provision has been made due to immaterial impact to the Company.
Yong Fa Paper, Zheng Ye Packaging (Zhongshan), Zheng Ye Alliance Packaging, Zheng Ye Packaging (Zhuhai), Zhong Tang Recycling	Failure to provide housing provident funds for certain employees in the PRC prior to August 2010 for Yong Fa Paper, August 2010 for Zheng Ye Packaging (Zhongshan), September 2010 for Zheng Ye Packaging (Zhuhai), August 2010 for Zhong Tang Recycling and October 2010 for Zheng Ye Alliance Packaging.	The local government of Zhongshan and Zhuhai, Guangdong Province, the PRC, did not require to pay housing provident fund during the Track Record Period.	As advised by our legal advisers as to PRC law, a fine of up to RMB50,000 may be imposed on each defaulting enterprise for its failure to carry out the payment of housing provident fund for our staff. Besides, the housing provident fund management centre shall order each defaulting enterprise to pay the housing provident fund in full within a prescribed time limit. Where the payment and deposit has not been made upon the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.	We have effected registration with the relevant local housing provident fund management centers and opened our housing provident fund accounts in designated banks in Zhongshan, Guangdong Province, the PRC, since August 2010 and Zhuhai, Guangdong Province, the PRC, since September 2010 and have been making the requisite contributions since then. As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	No provision has been made as each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, has confirmed with us in writing that we will not be held liable for our failure to comply with the relevant laws and regulations regarding the housing provident funds in the past. We are advised by our legal adviser as to PRC law that each of the relevant local housing provident fund management centers of Zhongshan and Zhuhai, Guangdong Province, the PRC, is competent to issue the confirmations.

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Zheng Ye International and Shing Yip (Hong Kong)	Their audited accounts were laid at annual general meetings held on dates (the "Approval Dates") which are beyond the time limit (i.e. nine months from the date to which the audited accounts were made up) as required under section 122 of the Companies Ordinance.	The companies and the management did not receive competent and timely professional advice on the on-going compliance requirements under the Companies Ordinance especially the requirement under section 122(1A) of the Companies Ordinance from the then auditors and the company secretarial firm who were responsible for accounting and company secretarial matters.	As each of Zheng Ye International and Shing Yip (Hong Kong) had obtained a court order allowing the extension of time limit for the laying of its accounts under section 122(1A) of the Companies Ordinance to the Approval Dates respectively, none of the directors of Zheng Ye International and Shing Yip (Hong Kong) commits an offence and none of them will be liable to a fine or a summary prosecution under the Companies Ordinance.	Applications were made to the High Court of Hong Kong on 20 January 2011 for extending the time limit for the laying of accounts to the Approval Dates respectively, pursuant to section 122(1B)(b) of the Companies Ordinance. On 27 January 2011, the High Court of Hong Kong granted the orders allowing the extension of time limit for the laying of accounts as required under section 122(1A) of the Companies Ordinance to the Approval Dates respectively.	No provision has been made for the non-compliance as none of Zheng Ye International and Shing Yip (Hong Kong) are liable for any monetary fine under the Companies Ordinance.
Yong Fa Paper, Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging	Delayed in making capital contribution in certain PRC subsidiaries within the required time frame.	Due to fast expansion of our Group's business and staff turnover of newly recruited staff, we inadvertently omitted to keep track of the timeframe for making the required capital contribution to our subsidiaries.	As the relevant shareholders have make full payment of capital contribution up to the Latest Practicable Date and the competent authority has granted approval to applications for changes by concerned companies and the concerned companies have pass every annual joint inspection of foreign-invested enterprises, the failure to make capital contribution timely by relevant shareholders shall not have any material adverse impact on the establishment and maintenance of concerned companies. The concerned companies are duly established and validly existing under PRC laws and regulations.	The relevant shareholders have made full payment of capital contribution up to the Latest Practicable Date. As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	No provision has been made as the competent authority has granted approval to applications for changes by concerned companies and the concerned companies have pass every annual joint inspection of foreign invested enterprises.

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Zheng Ye Packaging (Zhongshan)	Delayed in undertaking the environmental impact evaluation procedures for the construction projects and the checks and acceptance procedures for the corresponding environmental protection facilities required for the construction projects.	Due to our fast expansion, there was some oversight or failure in designating competent staff in handling compliance work with respect to the local regulations in respect to undertake the environmental impact evaluation procedures for the construction projects and the checks and acceptance procedures for the corresponding environmental protection facilities required for the construction projects.	Where the enterprises fail to file an application for approval of the construction project environmental impact report (or statement), the competent regulatory authority shall order the enterprise to make up the formalities within a given time period; where the enterprise fail to make up the formalities on expiry of the given time period and start construction without authorization, it shall be ordered to stop the construction and may be subject to a fine of less than RMB100,000 where the main body of the project formally goes into production or use without submitting the corresponding environmental protection facilities to acceptance and checks procedures, the competent authority shall order the enterprise to stop the production and impose a fine of less than RMB100,000 on the enterprise.	We have now obtained the relevant certificates or approvals, including the waste discharge permit and environmental protection confirmation. As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice.	As the competent authorities for the administration of environmental protection have allowed Zheng Ye Packaging (Zhongshan) to complete the environmental impact evaluation procedures for the contractual price and the check and acceptance procedures for the matching environmental protection facilities respectively without imposing any penalties on ZhengYe Packaging (Zhongshan), the risk that the competent authorities taking any actions against ZhengYe Packaging (Zhongshan) for the delay is minimal in practice. No provision is made therefore.
Zhong Tang Shi Ye (and after the merger by absorption, Yong Fa Paper)	Failed to obtain the requisite licence for the supply and sale of electricity to third parties during the Track Record Period and up to 31 December 2010.	At the request of the local government for the general benefits of the community, supplied electricity to third parties located in areas where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by licensed power grid suppliers. The earnings generated from the sale of electricity to third parties during the Track Record Period were approximately RMB4.5 million, RMB6.2 million and RMB1.7 million respectively.	In the event any enterprise that has not obtained an electric power business licence in accordance with applicable law engages in the provision of electricity business, the electric power regulatory body shall order the enterprise to make correction and confiscate its earnings generated from such business, and may even con-currently impose a fine of not more than five times as much as such earnings. The maximum amount of the fines that may be imposed on our Group as a result of the non-compliance would be approximately RMB85.0 million.	Yong Fa Paper has ceased the sales and supply of electricity and steam to third parties since 1 January 2011. As advised by our legal advisers as to PRC law, the chance for us to be penalised due to our previous breach is minimal in practice as the supply was made at the request of the local government.	No provision has been made as the supply was made at the request of the local government for the general benefits of the local community and the relevant competent PRC authorities has confirmed about that the supply of electricity was made at the request of the local government.

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Yong Fa Paper	Sales of electricity to third parties during the period from 8 September 2010 and to the end of 2010, was out of the respective business scope of Zhong Tang Shi Ye (before its de-registration) and Yong Fa Paper (upon the merger by absorption).	At the request of the local government for the general benefits of the community, supplied electricity to third parties located in areas where it is not practicable for licensed power grid suppliers to provide the necessary electricity in these areas due to the failure and/or delay in the transformation of power grid operated by the licensed power grid suppliers in these areas.	The administrative department for Industry and Commerce can order the cessation of the sale of electricity and confiscate any income arising thereof. A fine of less than RMB500,000 may be imposed.	Yong Fa has ceased the sales of electricity to others from 1 January 2011.	No provision has been made as the competent authority has confirmed in writing that Yong Fa Paper will not be held liable for the sales of electricity in light of the circumstances.
Yong Fa Paper	Failed to notify the relevant PRC tax bureau in charge of such change in costing determination method in accordance with provision 73 of 中華人民共和國企業所得稅法實施條例 (The Implementation Rules to the Enterprise Income Tax Law of the PRC*).	Due to the outburst of financial crisis in 2008, our management had to change the costing method in order to calculate the cost of sales. Owing to the inadvertent mistake of management, such a change in costing method in the then local management account was not adjusted back to weighted-average costing method in the preparation of the PRC statutory account. This oversight resulted in a decrease in the cost of sales of that subsidiary as per its PRC statutory account and led to an increase in taxable profit of that subsidiary for 2008.	Yong Fa Paper may be required to readjust its costing determination method as previously adopted. However there is no corresponding penalty provisions for such failure as prescribed in 中華人民共和國企業所得稅法實施條例 (The Implementation Rules to the Enterprise Income Tax Law of the PRC*).	Yong Fa has made remedial adjustment in the costing determination method to maintain consistency with the customary practice.	No provision has been made due to immaterial impact to our Group.

Name of our Group's company(ies)	Non-compliance (relevant period)	Reason(s) for non-compliance	Legal consequence(s) and maximum potential penalty	Remedial action(s) taken/ to be taken/latest status	Basis of provisions made for the potential penalty
Yong Fa Paper	Failed to apply for and obtained the license for the operation of the shipping pier for self-use purpose.	The pier was acquired by Zhong Tang Shi Ye in 2000 at which time Zhong Tang Shi Ye did not notice the need for any requisite licence for the operation of the pier. Zhong Tang Shi Ye has since then been in the process of preparing and collecting the relevant information and documents for the application of the operation licence of the pier but the relevant parties have delayed in providing the information and documents. The pier is not crucial to our Group's operation as no revenue and profit were generated from the pier during the Track Record Period.	The Port Administrative Department may order Yong Fa Paper to cease the operation of its shipping pier and confiscate any income thereof. Where the illegal income is more than RMB100,000, a fine of more than two times and less than five times of such illegal income will be imposed; and where the illegal income is less than RMB100,000, a fine of more than RMB50,000 and less than RMB200,000 will be imposed.	Yong Fa Paper has applied for the license for the operation of shipping pier for self-use and the Administration of Port and Shipping of Zhongshan City has accepted its application. As at the Latest Practicable Date, such application is being processed by the relevant authority and we expect to receive the relevant license by 20 August 2011. As advised by our legal adviser as to the PRC laws, there is no legal impediment for us to obtain the relevant license.	No provision has been made as the competent has given a written confirmation to Yong Fa Paper that it will not hold Yong Fa Paper liable for the non-compliance.

The total expenditure incurred by our Group to rectify the above non-compliance incidents was approximately RMB240,000.

Given the nature and the circumstances giving rise to the above non-compliance incidents, our Directors are of the view that none of these incidents have any material adverse impact on our business and operation and did not involve dishonesty or fraud of our management members. The Sole Sponsor concurs with the Directors' view in this regard.

We had not been involved in any litigation, claim, administrative action or arbitration, which had a material adverse effect on our operations or financial condition during the Track Record Period and as at the Latest Practicable Date, we were not involved in any proceedings, the outcome of which could have any material adverse effect on our business.

MEASURES TO PREVENT FUTURE NON-COMPLIANCE

In order to continuously improve our corporate governance and to prevent future non-compliance, our Group intends to adopt or have adopted the following measures:

(i) our in-house qualified PRC lawyer, who has over 10 years of experience and joined our Group in February 2011, is expected to be retained on an on-going basis to oversee and monitor the PRC legal and regulatory compliance matters in relation to our Group's operation and to report to our Board of any potential or actual non-compliance. We will also retain an external PRC legal adviser prior to the Listing Date for an initial term of one year who will work closely with our in-house PRC lawyer on PRC legal and regulatory compliance matters in relation to our Group's operation;

(ii) our external PRC legal advisers will provide seminar and prepare guidelines to our Directors and other members of our senior management as is necessary on the laws, rules and regulations which are relevant to our Group's operation. Regular updates will also be provided by the PRC legal advisers to our Company, whether external or in-house, to our Directors and other members of the senior management of our Group to keep them abreast of the changes and development in such laws, rules and regulations;

(iii) established a risk management & internal control committee (the "**Committee**") in January 2011 dedicated to assist the Board to identify, assess and manage the risks associated with the operation of our Group, among other things, and to ensure the due compliance of applicable rules and regulations, as well as our internal control measures. Our Group has designated Mr. Lau Wang Lap, our company secretary and financial controller, who is a qualified Certified Public Accountant, and has experience in managing financial reporting risk and compliance issues of a listed company, to oversee the Committee which consists of four other senior members, with an average 18 years of industry experience, from the packaging division and the paper business. The Committee shall promptly report to the Company's audit committee for any risk or suspected non-compliance identified, engage external professional advisers, such as lawyers and accountants, and prepare recommendations for the Board consideration. The Committee will also monitor the implementation of the internal control measures;

(iv) our company secretary will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will liaise with our in-house PRC lawyer and our other professional advisers to look into the matter and to provide necessary advices, guidelines or recommendation, as the case may be, to relevant members of our Group and/or our Board;

(v) our audit committee comprising three independent non-executive Directors, will review our internal controls on an annual basis to ensure, among other things, that our Group fully complies with all applicable laws, rules and regulations relevant to our operation, recommendation will be made to our Board for the improvement of our internal control procedures and system as is necessary and report will be made to our Board immediately if there is any potential or actual non-compliance;

(vi) our Company has appointed three independent non-executive Directors on 4 March 2011, among them, Mr. Chung Kwok Mo John has over 18 years of experience in auditing, financial management and corporate finance and Mr. Wu Youjun has experience in advising PRC companies in regulatory aspects. Their depth of experiences could assist us to procure our compliance with laws and regulations on a continuous basis;

(vii) our Company will appoint CMBI as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with Rule 3A.19 of the Listing Rules;

(viii) improving our existing internal control framework by adopting a new set of internal control manual and policies in February 2011, including the corporate governance manual, internal control policy and finance management policy, which cover corporate governance, operations, management, legal matters, finance and audit, subject to periodic review and update, for the need of our Group. Such internal control manual and policies have been reviewed by our internal control adviser, Baker Tilly Hong Kong Business Services Limited ("Baker Tilly Hong Kong"), which is of the view that we have established procedures, systems and controls which are adequate having regard to the obligations of our Company and the Directors to comply with the Listing Rules and other relevant legal and regulatory requirements and which are sufficient to enable the Directors to make a proper assessment of the financial position and prospects of our Group. Moreover, Baker Tilly Hong Kong is satisfied with the results of its internal control review over the procedures, systems and controls implemented by our Company;

(ix) conducting regular departmental review upon Listing in which representatives from each member of our Group shall meet at our Group's headquarter in Zhongshan, Guangdong Province, the PRC and report to the Committee on its local compliance once every quarter; and

(x) on-going review of our human resources policies to ensure sufficient manpower is in place to avoid overlooking any legal requirements in the future.

The proposed expenditures to deal with compliance issues in the future is expected to be approximately HK$550,000 per annum.

Our Company will provide updates on the steps taken to remedy the outstanding non-compliances noted in this prospectus and summarised in the paragraph headed "Legal and regulatory matters" of this section and the progress of resolving the outstanding non-compliance issues after Listing in our interim and annual reports for so long as any of the non-compliances remain outstanding.

In the light of the foregoing, our Directors and the Sole Sponsor are of the view that the enhanced internal control measures are adequate and effective.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, our Company will be owned as to approximately 38.25%, 18.75%, 15% and 3% by Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment respectively. Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment are investment holding vehicles wholly owned by the Hu Brothers, i.e. Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, respectively. As Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment, Hu Hanxiang Investment, Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang are, directly or indirectly, individually or together with the others, entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company, each of Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment, Hu Hanxiang Investment, Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang will be regarded as our Controlling Shareholder under the Listing Rules immediately following the Listing.

Mr. Hu Zheng, who is the Chairman of the Board, an executive Director and the ultimate largest Shareholder immediately prior to completion of the Global Offering and the Capitalisation Issue, was brought up in the PRC. Up to the Latest Practicable Date, except for his being a vice president of the China Packaging Federation, one of the national industry federations established with the approval by the State Council, and was working as a technician and an assistant engineer of a Stated-owned paper factory from 1983 to 1990, Mr. Hu Zheng had not been a full time government official of any country nor had he been a full time employee of any state or government-owned or operated entity for a substantial period of time.

RETAINED BUSINESSES OF OUR CONTROLLING SHAREHOLDERS

Apart from our Group, the Hu Brothers own Zheng Ye Group and Zhong Fa Equipment, which were principally engaged in the premises leasing businesses and equipment leasing business respectively in the PRC as at the Latest Practicable Date. As at the Latest Practicable Date, Zheng Ye Group and Zhong Fa Equipment were owned by the Hu Brothers as follows:

	Zheng Ye Group
Mr. Hu Zheng	51%
Mr. Hu Hancheng	25%
Mr. Hu Hanchao	20%
Mr. Hu Hanxiang	4%
	Zhong Fa Equipment
Mr. Hu Hanchao	20%
Zheng Ye Group	80%

As at the Latest Practicable Date, the equipments leased by Zhong Fa Equipment comprised cars and trucks, all of which were leased to our Group.

Our Directors are of the view that the equipment and premises leasing businesses of our Controlling Shareholders are distinctly different from, and do not compete, directly or indirectly, with those of our Group. Accordingly, the equipment and premises leasing businesses of our Controlling Shareholders were not injected into our Group as part of the Reorganisation.

Save as mentioned above, none of our Controlling Shareholders and our Directors or their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the businesses of our Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors consider that our Group is capable of carrying on our business independent of our Controlling Shareholders and their respective associates following the Listing:

Operational independence

All of our operating subsidiaries hold all relevant licenses that are material in relation to our business operations in their own names. We have sufficient operation capacity in terms of capital, plants and machineries, equipments, facilities, premises and employees to operate our business independently. We maintain good business relationship with our suppliers for the supply of our principal raw materials and purchase a large proportion of our principal raw materials from our suppliers directly and we are not dependent on any of our Controlling Shareholders or their respective associates for the supply of our principal raw materials and access to our customers.

Our Group leased from Zheng Ye Group certain premises as its production sites and ancillary facilities as more particularly referred to under the paragraph headed "Our leasing of premises from Zheng Ye Group" in the section headed "Connected transactions" in this prospectus. As at 31 December 2008, 31 December 2009, 31 December 2010 and the Latest Practicable Date, approximately 24.4%, 24.4%, 21.6% and 21.5% respectively of our Group's premises were leased from our Controlling Shareholders or their associates. Given that (a) the rents payable by our Group under these leases are consistent with the prevailing market rents for similar premises at similar locations; (b) our Group has the right to effect an early termination of these leases and to renew these leases at our option upon expiry of their respective original terms; and (c) there are similar premises available in the vicinity, our Directors do not consider that our Group place undue reliance on the Controlling Shareholders in this regard.

Financial independence

At present, our Company has established an internal control system and a financial department that operate independently. We have also set up an independent accounting and auditing system and a financial management system to make financial decisions independently. Our Company also has independent bank accounts and does not share any bank accounts or loan (or credit) facilities with any of our Controlling Shareholders or their respective associates. Our Company has a good record in obtaining banking or credit facilities and we believe we are capable of obtaining financing from third parties without reliance upon any of our Controlling Shareholders or their respective associates.

As at 31 December 2010, our Group had available banking facilities for an aggregate principal amount of RMB483.5 million. These banking facilities were secured by, among others, guarantees of, and charges over properties owned by, certain of the Controlling Shareholders and their respective associates. Each of the relevant banks has given its consent in principle to release all these guarantees and charges upon the Listing. On that basis, the Directors are of the view that our Group does not place undue reliance on the Controlling Shareholders or any party by virtue of the provision of financial assistance.

Management independence

Our Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors. Although all of our executive Directors are also our Controlling Shareholders, our Directors are of the view that we have and can maintain management independence as:

- Our Group's management, operation and affairs are headed, managed and supervised independently by our Board and not by any individual Director. The decisions of our Board are made by our Directors as a collective body and objectively in the interests of our Shareholders. In view of the fiduciary duties imposed on each of our Directors as a director of our Company, which require, among other things, that he acts for the benefit and in the best interests of our Company and not for his personal interest, no individual Director can alone make any decision for and on behalf of our Board for his personal interest. Any view of a Director will be checked and balanced by the view of other members of our Board.

- Pursuant to the terms of the service contracts entered into with between our Company and our executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to our Group.

- In the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by our Board, the interested Director(s) shall abstain from voting at the relevant meeting of our Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Bye-Laws and/or the Listing Rules.

- Under the Bye-Laws and the Listing Rules, our Directors must abstain from voting on any resolutions of our Board in respect of any contracts or arrangements in which they or any of their respective associates have a material interest and shall not be counted towards the quorum of the such Board meeting.

- We have three independent non-executive Directors, who are not associated with any of our Controlling Shareholders or their respective associates. Resolutions of our Board approving any matters in which any of our executive Directors has a potential conflict of interest and/or material interest will, for so long as all of our executive Directors are also our Controlling Shareholders and are brothers of the others, only be considered and approved by our independent non-executive Directors (as under the provision of our Bye-Laws and the Listing Rules, our executive Directors will then be prohibited from voting on the resolutions and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolutions are approved). The independence of our Board's decisions in respect of any matters in which any of our executive Directors has a potential conflict of interest and/or material interest is and can be ensured.

- Although none of our independent non-executive Directors have previously been acting as or involved as directors or senior management of companies engaged in the paper packaging industry, they do have basic knowledge and understanding of the industry in which we are operating. In compliance with the Listing Rules, we have provided comprehensive formal and tailored induction to our independent non-executive Directors and will continue to provide them with such briefing as is necessary to ensure that they have a proper understanding of the operations and business of our Group for the purposes of discharging their duties as independent non-executive Directors as well as to vote on resolutions proposed by our Board in relation to matters on which all our executive Directors are required to abstain from voting whether under the Listing Rules or the Bye-Laws. On the bases of the comprehensive induction course that has been provided and continues to be provided to our independent non-executive Directors as is necessary and the access to professional advice of our independent non-executive Directors from time to time, our Directors and the Sole Sponsor are of the view that our Board can function properly in case all our executive Directors are required to abstain from voting on matters to be considered at meeting of our Board in which our executive Directors have potential conflict of interest and/or material interest.

- Our Board is assisted and supported by our senior management in the discharge of its role. Our senior management is responsible for the daily management and operations of our Group and the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group are managed and operated independently from our Controlling Shareholders and their respective associates.

CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, our Group had entered into a number of transactions with counterparties who will become connected persons (as defined in Chapter 14A of the Listing Rules) of our Company immediately upon the Listing. These transactions will continue after the Listing on a continuing or recurring basis and will therefore constitute continuing connected transactions for our Company under the Listing Rules.

Depending on the size of each individual transaction, these transactions will fall into either one of the following two categories immediately upon the Listing:

(1) continuing connected transaction which is not subject to the reporting, announcement and independent shareholders' requirements under Chapter 14A of the Listing Rules; or

(2) continuing connected transaction which is subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

These transactions have been conducted, and will be carried out in the ordinary and usual course of business of our Group, and on normal commercial terms which are fair and reasonable as the Shareholders are concerned. Details of these transactions are set out below.

NOT SUBJECT TO THE REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

Our leasing of cars and trucks from Zhong Fa Equipment

Background, reason for the transaction and transaction terms

During the Track Record Period, certain cars and trucks used for our operation were leased from Zhong Fa Equipment as part of our trucks fleets for the purpose of delivering our goods and providing delivery services for our customers. These transactions will continue immediately after the Listing. The principal terms of the current car and trucks rental agreement dated 22 November 2010 made between Zhong Fa Equipment as lessor and Yong Fa Paper as lessee is for a term of three years commencing from 1 January 2011 to 31 December 2013 at the monthly rates of RMB1,000 per car and RMB1,500 per truck payable monthly. The car and trucks rental agreement can be termination by mutual agreement between the parties or by Yong Fa Paper giving not less than 30 days' written notice to Zhong Fa Equipment to that effect. Zhong Fa Equipment was principally engaged in the equipment leasing business in the PRC as at the Latest Practicable Date.

Historical transaction amounts

The rentals paid by us to Zhong Fa Equipment in respect of the car and trucks leasing during the Track Record Period are as follows:

Year ended 31 December		
2008	**2009**	**2010**
RMB	*RMB*	*RMB*
198,000	198,000	198,000

Listing Rules' implications

Zhong Fa Equipment is an 80% owned subsidiary of Zheng Ye Group, which is in turn beneficially owned by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who are all our Directors, by 51%, 25%, 20% and 4% respectively. The remaining 20% interest in Zhong Fa Equipment is owned by Mr. Hu Hanchao. Zhong Fa Equipment is therefore our Connected Person according to Rules 1.01 and 14A.11 of the Listing Rules. The transactions contemplated under the car and trucks rental agreement will, immediately following the Listing, constitute our continuing connected transaction.

On the basis that each of the percentage ratios (other than the profits ratio) on an annual basis is less than 5% and the annual consideration is less than HK$1,000,000, the transactions contemplated under the car and trucks rental agreement will not be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

Our leasing of premises from Zheng Ye Group

Background, reason for the transaction and transaction terms

During the Track Record Period, we leased premises at Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC from Zheng Ye Group as part of our production sites and ancillary facilities. These transactions will continue after the Listing for the purposes of providing us with premises as part of our production sites. Zheng Ye Group was principally engaged in the premises leasing business in the PRC as at the Latest Practicable Date.

The dates and the principal terms of the three tenancy agreements (the "**Tenancy Agreements**") entered into between Zheng Ye Group as landlord and Zheng Ye Packaging (Zhongshan) as tenant in respect of the letting (the "**Premises Leasing**") of the premises (the "**Premises**") are as follows:

- Date and subject matter of each tenancy agreement:

  — Tenancy agreement dated 1 January 2010 (as supplemented by two tenancy supplemental agreements dated 30 June 2010 and 3 July 2010) (the "**First Tenancy Agreement**") in relation to the letting of premises located at Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 36,475 sq.m..

  — Tenancy agreement dated 28 September 2010 (the "**Second Tenancy Agreement**") in relation to the letting of premises located at No. 126 Dongcheng Road, Dongshen Town, Zhongshan City, Guangdong Province, the PRC for use as our production site with a total gross floor area of approximately 7,824 sq.m..

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

- Period:

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

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

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

- Monthly rental payable:

  — The First Tenancy Agreement: RMB287,000.

  — The Second Tenancy Agreement: RMB63,000.

  — The Third Tenancy Agreement: RMB12,000.

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

- Rental deposit paid:

  — The First Tenancy Agreement: RMB300,000.

  — The Second Tenancy Agreement: RMB100,000.

  — The Third Tenancy Agreement: RMB50,000.

Historical transaction amounts

The rentals paid by us to Zheng Ye Group in respect of the Premises Leasing during the Track Record Period are as follows:

Year ended 31 December		
2008	**2009**	**2010**
RMB	*RMB*	*RMB*
3,552,000	3,552,000	3,669,000

Annual Caps

Our Directors expect that the annual rentals payable by our Group in respect of the Premises Leasing will not exceed the following annual caps:

Year ended 31 December		
2011	**2012**	**2013**
RMB	*RMB*	*RMB*
4,344,000	4,344,000	4,119,000

The proposed annual caps are determined by our Directors by reference to the monthly rental as is payable under the Premises Leasing, which monthly rental was determined by reference to the market rent of the Premises.

CB Richard Ellis Limited, an independent valuer, confirmed that the annual rental payable under the Tenancy Agreements reflects the current prevailing per square meter market rent and is fair and reasonable. Market rental is intended to mean the estimated amount for which a property, or space within a property, should lease on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.

View of the Directors and the Sole Sponsor on the Premises Leasing

Our Directors (including our independent non-executive Directors) and the Sole Sponsor are of the view that the Premises Leasing forms part of the ordinary and usual course of business of our Group, and the terms of the Premises Leasing are on normal commercial terms which are fair and reasonable and in the interests of the Shareholders as a whole. As the proposed annual caps are based on the monthly rental as is payable under the Premises Leasing, which monthly rental is itself determined by reference to the market rent of the Premises as appraised by CB Richard Ellis Limited, an independent valuer, our Directors (including our independent non-executive Directors) and the Sole Sponsor are also of the view that the proposed annual caps are fair and reasonable and in the interests of the Shareholders as a whole.

Listing Rules' implications

Zheng Ye Group is owned by Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang, who are all our Directors, by 51%, 25%, 20% and 4% respectively. Zheng Ye Group is therefore our Connected Person according to Rules 1.01 and 14A.11. The Premises Leasing will, following Listing, constitute our continuing connected transaction.

Using the proposed annual caps of the Premises Leasing as the numerators for the purpose of calculating the percentage ratios, the relevant percentage ratios for the purpose of Chapter 14A of the Listing Rules in respect of the Premises Leasing will be more than 0.1% but less than 5%, the Premises Leasing will therefore be subject to the reporting and announcement requirements but not the independent shareholders' approval requirement under Chapter 14A of the Listing Rules by virtue of Rule 14A.34(1).

Waiver from the Stock Exchange

The Premises Leasing will continue on a recurring basis, our Directors consider that strict compliance with the announcement requirement for the Premises Leasing under Chapter 14A of the Listing Rules would be impractical and would add unnecessary administrative costs to our Company on each occasion they arise following the Listing. Accordingly, our Company has applied to the Stock Exchange, and the Stock Exchange had granted, a waiver to our Company from strict compliance with the announcement requirement set out in Rule 14A.47 of the Listing Rules in respect of the Premises Leasing, subject to the conditions that in respect of the Premises Leasing:

- the annual transaction amounts for 2011, 2012 and 2013 are not to exceed the relevant proposed annual caps; and
- the other applicable requirements of Chapter 14A of the Listing Rules are complied with.

GENERAL

The following table sets forth information regarding our current Directors and senior management:

Name	Age	Position
Directors		
Mr. Hu Zheng (胡正)	48	Chairman and executive Director
Mr. Hu Hancheng (胡漢程)	51	Executive Director
Mr. Hu Hanchao (胡漢朝)	53	Executive Director
Mr. Hu Hanxiang (胡漢祥)	56	Non-executive Director
Mr. Zhu Hongwei (朱宏偉)	47	Independent non-executive Director
Mr. Wu Youjun (吳友俊)	43	Independent non-executive Director
Mr. Chung Kwok Mo John (鍾國武)	42	Independent non-executive Director
Senior management		
Mr. Chu Deliang (褚德亮)	45	Vice president of finance
Mr. Yin Wenxin (尹文欣)	54	Vice president of packaging division
Mr. Li Jun (李俊)	48	Vice president of packaging division
Mr. Zhang Xiaoming (張曉明)	48	Vice president of packaging division
Mr. Jiang Xianfan (江賢范)	40	Chief engineer of Yong Fa Paper
Mr. Hong Guanghua (洪光華)	47	Deputy general manager of Yong Fa Paper
Mr. Fu Zhongyang (符中揚)	52	Deputy general manager of Yong Fa Paper

DIRECTORS

Executive Directors

Mr. Hu Zheng (胡正), aged 48, is the Chairman of the Board and one of the founders of our Group. Mr. Hu Zheng was initially appointed as a Director on 3 September 2010, and was subsequently designated as an executive Director on 4 March 2011. Mr. Hu Zheng has also been appointed as the legal representative of Yong Fa Paper since 2003. Mr. Hu Zheng is responsible for overseeing the overall corporate management, operation and development planning of our Group. Mr. Hu Zheng has been involved in the paper-making and packaging industries for more than 20 years, during which he has acquired proven expertise in paper-making and packaging technologies while working at paper-making and packaging-related enterprises. Prior to founding our Group, Mr. Hu Zheng worked as a technician and an assistant engineer at a then state-owned paper factory from 1983 to 1990, and 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. Mr. Hu Zheng is currently the vice president of the China Packaging Federation. Mr. Hu Zheng graduated from Guangdong Foshan Vocational College (廣東佛山職業技術學院) formerly known as 廣東省佛山地區農業機械化學校 (Guangdong Foshan Region Agricultural Mechanical College*) in October 1981 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 obtained the professional qualification as an assistant engineer (助理工程師) awarded by 中山市科學技術委員會 (Zhongshan Science and Technology Committee*) in June 1988. Mr. Hu Zheng is brother of Mr. Hu Hancheng, Mr. Hu Hanchao, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hancheng (胡漢程), aged 51, was appointed an executive Director of the Company on 4 March 2011. Mr. Hu Hancheng joined our Group in 2003 and has been the legal representative of Zheng Ye Packaging (Zhongshan) since December 2007. Mr. Hu Hancheng is the president of the packaging division of our Group in charge of the management and operation of the packaging division. Prior to joining our 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. 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 廣東省成人科技大學 (Guangdong Province Adult Technology University*) in January 1995. Mr. Hu Hancheng is brother of Mr. Hu Hanchao and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Mr. Hu Hanchao (胡漢朝), aged 53, was initially appointed Director on 3 September 2010 and was designated as an executive Director on 4 March 2011. Mr. Hu Hanchao joined our Group in 2003 and is responsible for the operations management of Yong Fa Paper. Mr. Hu Hanchao has been involved in corporate management for more than 25 years and was the assistant manager of Xinhua Bookshop from 1985 to 1994. Prior to joining our Group, Mr. Hu Hanchao was the deputy general manager at Zhong Fa Equipment from 2000 to 2003 responsible for the overall operational management of the business. Mr. Hu Hanchao graduated from Zhongshan Municipal Communist Party Cadre School (中山市幹部學校) in August 1985. Mr. Hu Hanchao is brother of Mr. Hu Hancheng and Mr. Hu Zheng, executive Directors and Mr. Hu Hanxiang, non-executive Director.

Each of the executive Directors has entered into a service contract with the Company for a period of three years commencing from 4 March 2011. Under such contract, each Director will receive a fixed monthly salary and may receive a discretionary bonus. Further details of the terms of the service contracts of the executive Directors are set out under the paragraph headed "Further information about our Directors and our Shareholders — 12. Directors — (b) Particulars of Directors' service contracts" in Appendix V to this prospectus. Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, payable to the Directors for the year ended 31 December 2011 is estimated to be approximately RMB5.8 million.

Non-executive Director

Mr. Hu Hanxiang (胡漢祥), aged 56, was appointed a non-executive Director of the Company on 4 March 2011. Mr. Hu Hanxiang joined our Group in 2004 and is a supervisor of Yong Fa Paper. Prior to joining our Group, Mr. Hu Hanxiang has 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. Mr. Hu Hanxiang graduated from 廣東省經濟管理幹部學院 (Guangdong Province Economic Management Bureau College*) in July 1986. Mr. Hu Hanxiang is brother of Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Zheng, executive Directors.

Independent Non-Executive Directors

Mr. Zhu Hongwei (朱宏偉), aged 47, joined the Company as an independent non-executive Director on 4 March 2011. He was an independent director of Guangdong Hydropower Engineering Group Company Limited during the period from September 2003 to December 2009. Mr. Zhu was an associate professor of Guangdong Polytechnic Normal University from February 2006 to December 2010 after which he has been appointed as a professor. He has in-depth knowledge in corporate management, having received tertiary education and undertaken faculty and research positions at various universities. Mr. Zhu graduated from Sichuan University (四川大學) with a Bachelor of Science degree in July 1983 and holds a Master of Science degree awarded by Zhejiang

University (浙江大學) formerly known as Hangzhou University (杭州大學) in June 1990 and a doctorate degree in corporate management awarded by Zhongnan University of Economics and Law (中南財經政法大學) in June 2000.

Mr. Wu Youjun (吳友俊), aged 43, joined the Company as an independent non-executive Director on 4 March 2011. Mr. Wu was the vice supervisor of the Guangzhou Representative Office of Ng & Shum Solicitors & Notaries of Hong Kong and acted as its head of the China Department from 1994 to 1998 and advised state-owned enterprises regarding overseas investments, mergers and acquisitions. Mr. Wu is 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 has received tertiary education with proven knowledge in law and finance. 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 42, joined the Company as an independent non-executive Director on 4 March 2011. Mr. Chung has acted as the chief financial officer of Xiwang Sugar Holdings Company Limited (a company listed on the Stock Exchange and stock code: 2088) since May 2008. Mr. Chung has over 19 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in an international accounting firm during 1992 to 1999. Since 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. Chung obtained a Bachelor of Economics degree from Macquarie University, Australia in April 1992. Mr. Chung first became a member of Hong Kong Institute of Certified Public Accountants in February 1996 and that of CPA Australia in November 1995.

The aggregate amount of fees, salaries, pension scheme contributions, other allowances and benefits-in-kind paid by us to the Directors for each of the three years ended 31 December 2010 was approximately RMB0.2 million, RMB0.7 million and RMB1.2 million respectively.

Save as disclosed above, no other payments had been paid or are payable, in respect of the three years ended 31 December 2010, by our Company or any of our subsidiaries to the Directors.

Save as disclosed above, each of the Directors (i) did not hold other positions in the Company or members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of the Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the section headed "Interest discloseable under the SFO and Substantial Shareholders" and the paragraph headed "Further information about Directors and our Shareholders" in Appendix V to this prospectus, each of the Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge information and belief of the Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Chu Deliang (褚德亮), aged 45, joined our Group in 2003. Mr. Chu is the vice president of finance responsible for overseeing the financial matters of our subsidiaries in the PRC and formulating our Group's investment strategies. Mr. Chu has over 19 years of experience in the accounting field. Prior to joining our Group, Mr. Chu was the financial controller of a PRC company from October 2002 to July 2003. Mr. Chu was conferred the title of accountant by 湖北省人事廳 (Human Resources Bureau of Hubei Province*) in September 1992 and the title of PRC certified public accountant in September 1999. Mr. Chu 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.

Mr. Yin Wenxin (尹文欣), aged 54, joined our Group in 2003. Mr. Yin is vice president of our Group's packaging 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. Mr. Yin worked for 贛南造紙廠 (Gannan Paper Factory*) as an engineer from 1976 to 1994. Prior to joining our Group, Mr. Yin was the vice president at a PRC packaging products manufacturing factory from 1995 to 2003 responsible for the operations management. Mr. Yin graduated from Jiangxi Radio & TV University (江西廣播電視大學) in August 1983 majoring in mechanics.

Mr. Li Jun (李俊), aged 48, joined our Group in 2003. Mr. Li is the vice president of our Group's packaging division 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. Mr. Li worked for 郴州紅旗造紙廠 (Chenzhou Hongqi Paper Factory*) from 1982 to 1993 and was responsible for the production technology and subsequently at 郴州第二造紙廠 (Chenzhou Hongqi Paper Factory II*) as assistant plant manager till 1996. Prior to joining our Group, Mr. Li was the head of the transportation department at a PRC packaging products manufacturing factory from 1999 to 2003 responsible for the inventory and logistic management of the business. Mr. Li graduated from 湖南省輕工業專科學校 (Hunan Vocational College for Light Industry*) in July 1982, majoring in paper-making processes, and obtained professional qualification as an engineer (工程師) awarded by 湖南省人事廳 (Human Resources Bureau of Hunan Province*) in July 1992.

Mr. Zhang Xiaoming (張曉明), aged 48, joined our Group in 2003. Mr. Zhang is vice president of our Group's packaging division responsible for the project and corporate management of the division. Mr. Zhang has been involved in the paper-making and packaging industry for 25 years with a strong edge in administration having spent years in a management capacity. Prior to joining our Group, Mr. Zhang worked for 中山造紙廠 (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 廣州輕工業學校 (Guangzhou College of Light Industry*) administered by the Ministry of Light Industry, majoring pulp paper making.

Mr. Jiang Xianfan (江賢范), aged 40, joined our Group in 2009. Mr. Jiang is the chief engineer of Yong Fa Paper in charge of the overall project and technology management. Mr. Jiang has 18 years of experience in paper-making, having been posted to 中國輕工業南寧設計工程有限公司 (China Light Industry Nanning Design Work Company Limited*) since graduation, during which he was involved in the design of numerous large-scale projects. Mr. Jiang graduated from Nanjing

Forestry University (南京林業大學) in June 1992 majoring in pulp paper manufacturing and holds the title of senior engineer awarded by 中國海誠國際工程投資總院 (China Haicheng International Engineering Investment Institute*) in December 2003.

Mr. Hong Guanghua (洪光華), aged 47, joined our Group in 2003. Mr. Hong is the deputy general manager of Yong Fa Paper assisting with the operation and management of Yong Fa Paper. Mr. Hong has 26 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 paper-making 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 Zhong Fa Equipment 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 中山市工程技術人員中級職務評審委員會 (Zhongshan Intermediate Engineering Technician Assessment Committee*) in April 1992.

Mr. Fu Zhongyang (符中揚), aged 52, joined our Group in 2003. Mr. Fu is deputy general manager of Yong Fa Paper and is in charge of the sales operation. Mr. Fu has 20 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 Zhong Fa Equipment 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 in 1992 by 中山市科學技術委員會 (Zhongshan Science and Technology Committee*) in July 1992 and economist by the Ministry of Personnel of the PRC in October 1996.

COMPANY SECRETARY

Mr. Lau Wang Lap (劉宏立), aged 32, joined our Group as financial controller on 18 August 2010 and was appointed as company secretary of our Company on 18 February 2011. Mr. Lau is responsible for financial reporting and budgeting matters. Mr. Lau is also the head of our Group's risk management and internal control committee responsible for overseeing the risk management and internal control issues of our Group. Mr. Lau has over seven years experience in accounting and auditing firms. Prior to joining our Group, Mr. Lau was the financial manager of a subsidiary of Win Hanverky Holding Limited, a listed company on the Stock Exchange (Stock Code: 3322), from July 2007 to August 2010 and was with PricewaterhouseCoopers from January 2004 to January 2007. Mr. Lau obtained a Bachelor of Business Administration degree in accountancy from City University of Hong Kong in November 2003. Mr. Lau first became a member of the Hong Kong Institute of Certified Public Accountant in May 2007.

AUDIT COMMITTEE

We have established an audit committee in compliance with Rules 3.21 and 3.23 of the Listing Rules. The audit committee consists of three independent non-executive Directors, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun and Mr. Zhu Hongwei. Mr. Chung Kwok Mo John is the chairman of the audit committee. The primary duties of the audit committee are to make recommendation to our Board on the appointment of the external auditors, review and supervise the financial reporting process and the internal control procedures of our Group.

REMUNERATION COMMITTEE

We have established a remuneration committee in compliance with Appendix 14 to the Listing Rules. The remuneration committee consists of four members, namely Mr. Chung Kwok Mo John, Mr. Wu Youjun, Mr. Zhu Hongwei and Mr. Hu Zheng. Mr. Chung Kwok Mo John is the chairman of the remuneration committee. The primary functions of the remuneration committee are to make recommendations to the Board on the remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for the Directors and senior management.

NOMINATION COMMITTEE

We have established a nomination committee to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management. The nomination committee consists of four members, namely Mr. Chung, Kwok Mo John, Mr. Wu Youjun, Mr. Zhu Hongwei and Mr. Hu Zheng. Mr. Hu Zheng is the chairman of the nomination committee.

STAFF

As at the Latest Practicable Date, we had 3,604 full-time staff in the PRC. The following sets forth the total number of our staff by functions:

	Total number
Management	20
General Administration	223
Finance	35
Information Technology Management	5
Production	2,537
Quality Control	358
Sales & Marketing	71
Logistics	355
Total	3,604

Relationships with our employees

We have not experienced any significant problems with our employees or disruptions to our operations due to labour disputes, nor has we experience any difficulties in the recruitment and retention of experienced employees during the Track Record Period. We believe we have a good working relationship with our employees.

Remuneration policy

The remuneration package we offer to our employees includes salary, bonuses and other cash subsidies. In general, we determine employee salaries based on each employee's qualifications, position and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

Compensation

Compensation of our employees includes salaries, contributions to housing fund and contributions to pension scheme. For each of the three years ended 31 December 2010, our Group incurred staff costs (including Directors' remuneration) of approximately RMB70.6 million, RMB71.8 million and RMB102.6 million respectively, representing approximately 8.4%, 9.7% and 9.7% of our Group's turnover for the respective periods.

Benefit schemes

Save as disclosed in the section headed "Risk factors" in this prospectus, we comply in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where we operate. We have contributed retirement benefits for our staff in the PRC in accordance with the applicable PRC rules and regulations. We have operated a mandatory provident fund scheme for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

Share Option Scheme

We have conditionally adopted the Share Option Scheme whereby such selected classes of participants (as more particularly described in Appendix V to this prospectus) may be granted options to subscribe for Shares at the discretion of the Board. The principal terms of the Share Option Scheme are summarised under "Other information — 15. Share Option Scheme" in Appendix V to this prospectus.

COMPLIANCE ADVISER

We will appoint CMBI as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including shares issues and shares repurchases;
- where we propose to use the proceeds from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information of this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than our Company:

Name of Shareholder	Company/Name of Group member	Capacity/ Nature of interest	Number of securities held *(Note 1)*	Approximate shareholding percentage *(%)*
Hu Zheng Investment	Our Company	Beneficial owner	191,250,000 (L)	38.25%
Mr. Hu Zheng *(Note 2)*	Our Company	Interest in controlled corporation	191,250,000 (L)	38.25%
Ms. Li Lifen *(Note 3)*	Our Company	Interest of spouse	191,250,000 (L)	38.25%
Hu Hancheng Investment	Our Company	Beneficial owner	93,750,000 (L)	18.75%
Mr. Hu Hancheng *(Note 4)*	Our Company	Interest in controlled corporation	93,750,000 (L)	18.75%
Ms. Li Si Yuan *(Note 5)*	Our Company	Interest of spouse	93,750,000 (L)	18.75%
Hu Hanchao Investment	Our Company	Beneficial owner	75,000,000 (L)	15%
Mr. Hu Hanchao *(Note 6)*	Our Company	Interest in controlled corporation	75,000,000 (L)	15%
Ms. He Lijuan *(Note 7)*	Our Company	Interest of spouse	75,000,000 (L)	15%

Notes:

(1) The letter "L" denotes a person's "long position" (as defined under Part XV of the SFO) in such shares.

(2) These Shares are held by Hu Zheng Investment, which is wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng is deemed to be interested in the Shares held by Hu Zheng Investment, subject to any borrowing arrangement which may be effected by the Stock Borrowing Agreement.

(3) Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen is taken to be interested in the same number of Shares in which Mr. Hu Zheng is interested.

(4) These shares are held by Hu Hancheng Investment, which is wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng is deemed to be interested in the Shares held by Hu Hancheng Investment.

(5) Ms. Li Si Yuan is the spouse of Mr. Hu Hancheng. Under the SFO, Ms. Li Si Yuan is taken to be interested in the same number of Shares in which Mr. Hu Hancheng is interested.

(6) These shares are held by Hu Hanchao Investment, which is wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao is deemed to be interested in the Shares held by Hu Hanchao Investment.

(7) Ms. He Lijuan is the spouse of Mr. Hu Hanchao. Under the SFO, Ms. He Lijuan is taken to be interested in the same number of Shares in which Mr. Hu Hanchao is interested.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following table is prepared on the basis that the Global Offering becomes unconditional. This table does not take into account Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

Authorised share capital:		*HK$*
1,000,000,000	Shares	100,000,000
Shares in issue or to be issued, paid-up or credited as fully paid:		
2,000,000	Shares in issue at the date of this prospectus	200,000
373,000,000	Shares to be issued under the Capitalisation Issue	37,300,000
125,000,000	Shares to be issued pursuant to the Global Offering (before any exercise of the Over-allotment Option)	12,500,000
500,000,000	Shares	50,000,000

Assumptions

This table assumes the Global Offering has become unconditional and the issue of Shares pursuant thereto is made as described herein. It takes no account of any Shares which may be allotted and issued under the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

Ranking

The New Shares and the Shares that may be issued pursuant to the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme will rank pari passu in all respects with all Shares in issue and/or to be issued and will qualify for all dividends or other distributions declared, paid or made on our Shares after the date of this prospectus except for the Capitalisation Issue.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out under "Other information — 15. Share Option Scheme" in Appendix V to this prospectus.

General mandate given to our Directors to issue new Shares

Subject to the Global Offering becoming unconditional, a general unconditional mandate has been granted to our Directors to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option), and

- the aggregate nominal amount of the share capital of our Company repurchased by our Company under the authority referred to in the paragraph headed "General mandate given to our Directors to repurchase our Shares" below.

The aggregate nominal value of our Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Bye-Laws, or pursuant to the exercise of options which may be granted under the Share Option Scheme or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- upon the expiration of the period within which our Company is required by any applicable laws or the Bye-Laws to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Further information of our Company and our subsidiaries — 3. Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011" in Appendix V to this prospectus.

GENERAL MANDATE GIVEN TO OUR DIRECTORS TO REPURCHASE OUR SHARES

Subject to the Global Offering becoming unconditional, a general unconditional mandate has been granted to our Directors to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of Global Offering and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in "Further information about our Company and our subsidiaries — 7. Repurchase by our Company of our own securities" in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- upon the expiration of the period within which our Company is required by any applicable laws or the Bye-Laws to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under "Further information of our Company and our subsidiaries — 3. Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011" in Appendix V to this prospectus.

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

OVERVIEW

We are a manufacturer of paper-based packaging products in the PRC capable of offering paper-based packaging services coupled with our own corrugated medium paper manufacturing capability. Our Group is a production enterprise integrating the processes of recycling of waste paper, manufacturing of corrugated medium paper and production of paper-based packaging products, which are used to substitute traditional packaging materials such as foam and plastic materials that are generally considered to cause unfavourable effects on the environment.

Our principal products are: (i) paper-based packaging products, which mainly include corrugated cartons and other ancillary products such as honeycomb paper-based products, and are suitable for the packaging of consumer products, in particular household air-conditioners and other small household appliances; and (ii) high-strength corrugated medium paper, which is divided into different grades with different specifications to suit various industrial purposes, and is mainly sold to manufacturers of corrugated paperboard and cartons (including our packaging manufacturing subsidiaries, namely, Zheng Ye Packaging (Zhongshan), Zheng Ye Packaging (Zhuhai) and Zheng Ye Alliance Packaging). In order to capture the increasing market demand, we have commenced the commercial production of honeycomb paper-based products since December 2010.

According to the Synovate Report commissioned by our Group, paper-based packaging for household air-conditioners in the PRC accounted for approximately 24.0% of the total revenue generated in the PRC paper-based packaging business for major household appliances (commonly known as "white goods") in 2009. We were the largest supplier of paper-based packaging products for household air-conditioners in the PRC and our sales volume and revenue accounted for 28.7% and 25.7% of the total paper-based packaging products for household air-conditioners in the PRC, for the year ended 31 December 2009, respectively. Further, according for the China Packaging Federation, we were the largest supplier of paper-based packaging products to household air-conditioners in the PRC in terms of production volume for the year ended 31 December 2009 and our Group's paper-based packaging products accounted for approximately 30.5% of the total paper-based packaging products for air-conditioners in the PRC. We strive to use waste paper in our production, adopt stringent environmental protection measures and produce products that can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on environment.

BASIS OF THE PREPARATION AND PRESENTATION OF FINANCIAL INFORMATION

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

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

Our Group recorded relatively stable financial results during the Track Record Period albeit suffering from the impact of the global financial crisis outburst in late 2008. Our Directors believe that by implementing our business strategies as detailed under the section headed "Business — Business strategies" in this prospectus, our Group strive to become the leading manufacturer of paper-based packaging products and corrugated medium paper in the PRC. We strive to use waste paper in our production, adopt stringent environmental protection measures and produce products that can substitute traditional packaging materials such as foam and plastic materials which are generally considered to cause unfavourable effects on the environment. However, potential investors should be aware of the following factors which we think may affect our results of operations, financial conditions and the year-to-year comparability of our results of operations.

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

Our revenue is mainly derived from the sales of our paper-based packaging products and corrugated medium paper. During the Track Record Period, we sold our paper-based packaging products to renowned consumer product manufacturers in various industries, targeting in particular those major manufacturers of household air-conditioners and other household appliances, such as Gree, Midea and Galanz. During the Track Record Period, the revenue derived from the sales of paper-based packaging products was approximately RMB371.6 million, RMB388.5 million and RMB565.9 million, respectively, which accounted for approximately 44.4%, 52.3% and 53.7% of the total revenue for each financial year during the Track Record Period, respectively.

Our revenue derived from the sale of corrugated medium paper was approximately RMB464.8 million, RMB354.9 million and RMB487.4 million, respectively, which accounted for approximately 55.6%, 47.7% and 46.3% of the total revenues for the corresponding financial year, respectively. The waste paper we collect and purchase will be further processed into different categories of corrugated medium paper. A certain portion of our corrugated medium paper is then passed to the next stage of our production chain and used to produce paper-based packaging products, or is then sold to other packaging materials manufacturers in the PRC.

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

According to the National Bureau of Statistics of China, per capita annual disposable income of the urban households of China has increased by approximately 11.3% in 2010 while the per capita annual net income of rural households has also increased by approximately 14.9% in 2010. Due to the strong growth in personal disposable income and the rising living standards in the PRC in recent years, the demand for consumer products is expected to continue to rise in the future and will eventually fuel the growth in estimated household expenditures on consumer products.

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

As the then prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Since the average selling price of our corrugated medium paper after the outburst of the crisis in late 2008 decreased at a greater rate than that of our average purchase cost of waste paper, our Group's gross profit margin for corrugated medium paper for the year ended 31 December 2008 of approximately 7.4% was relatively low as compared to that for the year ended 31 December 2009.

With the global financial markets gradually improved in 2009, our Group's gross profit margin for corrugated medium paper improved to approximately 15.6% for the year ended 31 December 2009 and further to 17.1% for the year ended 31 December 2010. Should there be deterioration of the global economy in the future which impacts our customers' business cycles, our business would be adversely affected.

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

The development of the household appliance industry in the PRC

In recent years, the PRC government has implemented short term incentive policies aimed at accelerating the growth and improving the quality of living standards of residents in the rural areas, such as the Rural Appliance Rebate Program and the Change of the Old for New Program. We mainly sell our paper-based packaging products to the manufacturers of household appliances in the PRC. During the Track Record Period, approximately 44.4%, 52.3% and 53.7% of our total revenue were generated from the sales of our paper-based packaging products. While the Rural Appliance Rebate Program and the Change of the Old for New Program are short term incentive policies of the PRC government, we believe both programs will stimulate the demand for the household appliance of our customers and have a positive impact on the sales of our paper-based packaging products accordingly. The expiration of the Rural Appliance Rebate Program and the Change of the Old for New Program or any changes to such policies may negatively affect our revenue and results of operations.

Raw materials costs

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

Waste paper is an essential raw material in our production of corrugated medium paper which was either sold to our customers or adopted in the production of paper-based packaging products. The cost of waste paper consumed accounted for approximately 58.0%, 53.0% and 55.7%, respectively, of our total raw materials costs during the Track Record Period. We historically relied on an established network consisting of a wide range of local waste paper suppliers in Zhongshan, Guangdong Province, the PRC, to ensure a stable supply of waste paper for our corrugated medium paper production. In the meantime, we also advocate extending our procurement channels from international waste paper suppliers which supply us with high quality waste paper feedstock.

In addition, we procure raw paper from our suppliers which include the leading paper products manufacturers in the PRC for our production of paper-based packaging products. The cost of raw paper consumed accounted for approximately 32.4%, 34.4% and 36.7%, respectively of our total raw material costs during the Track Record Period.

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

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

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Decrease in profit before tax for the year or period caused by a 5% increase in the purchase costs of:			
Waste paper	15,987	11,576	18,572
Raw paper	8,928	7,504	12,241

The expansion of our production capacity in recent years

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

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

Product mix and pricing of our products

As we consider the quality of corrugated medium paper is very critical for the production of high-quality paper-based packaging materials, we also manufacture high-strength corrugated medium paper, which could satisfy our Group's demand for corrugated medium paper for producing paper-based packaging products. The diversification of our product portfolio has strengthened our revenue base and affected our profit margin as a result of the change in revenue derived in proportion from each class of products. Our continuing ability to optimise our product mix to meet different customers' needs and preferences helps to drive our sales. Currently, our product mix mainly includes manufacturing of paper-based packaging products including corrugated cartons, honeycomb paper-based products and other paper-based packaging products and corrugated medium paper. During the Track Record Period, our paper-based packaging products maintained a relatively stable gross profit margin, ranging from approximately 18.3% to approximately 21.5%. The gross profit margin of manufacturing corrugated medium paper ranged from approximately 7.4% to approximately 17.1%. During the Track Record Period, our Group expanded the variety of our paper-based packaging products by expanding, modifying and upgrading our production facilities to enhance our production capacity and efficiency. In 2010, we set up a new production plant of honeycomb paper-based products in Zhongshan, Guangdong Province, the PRC, which our Group started its commercial operation in December 2010.

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

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

Market competition

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

Level of income tax and preferential tax treatment

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited financial information. Our significant accounting policies are summarised in note 1 of the accountants' report on our Group in

Appendix I to this prospectus. We believe the following critical accounting policies and practices involve significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities within the next financial year.

Revenue recognition

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Inventories

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

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

Trade and other receivables

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Borrowing costs

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

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

SUMMARY OF FINANCIAL INFORMATION

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

Combined Statements of Comprehensive Income

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

DESCRIPTION OF CERTAIN COMPONENTS OF STATEMENTS OF COMPREHENSIVE INCOME

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

Revenue

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Revenue by product						
Paper-based packaging products	371,571	44.4%	388,497	52.3%	565,942	53.7%
Corrugated medium paper	464,838	55.6%	354,854	47.7%	487,360	46.3%
Total	**836,409**	**100.0%**	**743,351**	**100.0%**	**1,053,302**	**100%**

	Year ended 31 December		
	2008	**2009**	**2010**
Quantity sold by product			
Paper-based packaging products ('000 sq.m.)	109,895	127,406	164,686
Corrugated medium paper ('000 tonne)	177	183	168
Average selling price (RMB)			
Paper-based packaging products (per sq.m.)	3.4	3.0	3.4
Corrugated medium paper (per tonne)	2,626	1,939	2,901

Paper-based packaging products

The revenue generated from our paper-based packaging products accounted for approximately 44.4%, 52.3% and 53.7% of our total revenue for each of the three years ended 31 December 2010, respectively. Contribution from paper-based packaging products sales increased throughout the Track Record Period primarily due to an increase in sales volume. The average selling price per sq.m. of our paper-based packaging products was stable and remained at a range between approximately RMB3.0 per sq.m. to approximately RMB3.4 per sq.m. during the Track Record Period whereas sales from our paper-based packaging products increased throughout the Track Record Period, due to our growing emphasis on promoting our paper-based packaging products, increasing demand for such products due to favourable market conditions, as well as our effort in expanding our customer base from focusing on the household air-conditioning industry in the past to a wider range of industries, including other household appliance and food condiment industries during the Track Record Period. We have adopted a cost-plus pricing model whereby the selling price of our paper-based packaging products was determined by a mark-up over cost of major raw materials with reference to the prevailing market prices of such raw materials at the time of entering into the contracts with our customers. Such mark-up is determined with reference to, among other things, our business relationship with the respective customers, delivery schedule, transportation cost, additional printing requirements, the technical specifications etc.

Corrugated medium paper

The revenue generated from the sales of our corrugated medium paper accounted for approximately 55.6%, 47.7% and 46.3% of our total revenue for each of the three years ended 31 December 2010, respectively. During the Track Record Period, corrugated medium paper products were either sold to third parties customers directly or used in the production of our paper-based packaging products. The selling prices of the corrugated medium paper are set by our management based on the cost-plus pricing strategy, with reference to the prevailing market price of the products and our cost of sales, in particular the price of waste paper. The selling prices will then be regularly reviewed by our sales teams and our management team. Meanwhile, since the pricing of our corrugated medium paper was referenced to the prevailing market price of waste paper, the average selling price per tonne of our corrugated medium paper was higher in year 2008, with approximately RMB2,626, as a result of the increasing price trend of waste paper. The decrease in the average selling price per tonne in year 2009 was mainly due to the impact from the financial crisis in the last quarter in 2008. The average selling price per tonne of our corrugated medium paper in 2009 was approximately RMB1,939, and increase to approximately RMB2,901 for the year ended 31 December 2010.

Cost of sales

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

	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Cost of Sales						
Raw Materials	551,488	75.1%	436,881	72.3%	666,440	76.9%
Manufacturing overheads						
— Utilities	99,602	13.6%	85,362	14.1%	101,106	11.7%
— Depreciation	12,338	1.7%	14,262	2.4%	16,193	1.9%
— Rental expenses	11,577	1.6%	10,319	1.7%	5,158	0.6%
— Repair and maintenance	16,331	2.2%	11,911	2.0%	14,242	1.6%
Subtotal	139,848	19.1%	121,854	20.2%	136,699	15.8%
Direct Staff Cost	42,194	5.8%	45,538	7.5%	63,128	7.3%
Total	**733,530**	**100.0%**	**604,273**	**100.0%**	**866,267**	**100%**

Raw materials

Raw material costs mainly represented procuring costs of waste paper and raw paper. Waste paper is mainly used for manufacturing our corrugated medium paper and raw paper is mainly used for manufacturing our paper-based packaging products. During the Track Record Period, procuring costs of raw materials accounted for over 70% of our cost of sales. Amongst the cost of sales, the cost of waste paper was approximately 58.0%, 53.0% and 55.7% of the total raw material costs, while the cost of raw paper was approximately 32.4%, 34.4% and 36.7% of the total raw material costs. The decreasing trend of our cost of waste paper and the increasing trend of our cost of raw paper as a percentage of our total cost of sales during the Track Record Period, was primarily due to a change of product mix that focuses more on paper-based packaging products which have relatively higher profit margins. In order to ensure a stable supply of waste paper, our Group has established a network with a variety of local waste paper suppliers in Zhongshan, Guangdong Province, the PRC and also advocates extending our procurement channels from international waste paper suppliers which supply us with high quality waste paper feedstock. In addition, our Group procures raw paper from our raw paper suppliers which include the leading paper products manufacturers in the PRC for production of paper-based packaging products.

Manufacturing overheads

Manufacturing overheads mainly represented utilities costs, depreciation expenses, rental expenses and repair and maintenance costs. Amongst the manufacturing overheads, utilities costs accounted for approximately 13.6%, 14.1% and 11.7%, respectively, of our cost of sales during the Track Record Period. Our Group's utilities costs, primarily comprised coal purchase cost, accounted for over 80% of our utilities costs during the Track Record Period. Other utilities costs mainly consist of heavy fuel oil cost, third party electricity cost and water. Our Group uses coal as fuel for our coal power generation facilities that supply electricity and steam used in the manufacturing of corrugated medium paper. Thus, fluctuation of purchase cost of coal would affect the cost of manufacturing of corrugated medium paper. To the best knowledge of our Directors, generating power from our own coal power generation facilities are more cost effective than relying on the supply of electricity and steam from third parties.

Also, depreciation expenses among manufacturing overheads mainly represented the wear off cost of fixed assets and machineries used for our production purposes. Depreciation expenses accounted for approximately 1.7%, 2.4% and 1.9% of our total cost of sales during the three years ended 31 December 2010, respectively.

Direct staff costs

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

Gross profit and gross profit margin

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Gross Profit						
Paper-based packaging products	68,483	66.6%	83,592	60.1%	103,574	55.4%
Corrugated medium paper	34,396	33.4%	55,486	39.9%	83,461	44.6%
Total	**102,879**	**100.0%**	**139,078**	**100.0%**	**187,035**	**100%**

	Year ended 31 December		
	2008	**2009**	**2010**
Gross Profit Margin			
Paper-based packaging products	18.4%	21.5%	18.3%
Corrugated medium paper	7.4%	15.6%	17.1%
Overall	**12.3%**	**18.7%**	**17.8%**

Our gross profit for each of the three financial years ended 31 December 2010 was approximately RMB102.9 million, RMB139.1 million and RMB187.0 million, respectively, while our gross profit margin for each of the three financial years ended 31 December 2010 was approximately 12.3%, 18.7% and 17.8%, respectively.

Our Group's gross profit margin for corrugated medium paper was relatively low, of approximately 7.4% for the year ended 31 December 2008 as compared to that for the year ended 31 December 2009. However, the gross profit margin for paper-based packaging products was at approximately 18.4% for the year ended 31 December 2008. Our Directors considered that the difference in the fluctuation of the gross profit margin of our corrugated medium paper and paper-based packaging products was mainly attributable to the difference in their pricing policies and the cost structure of these two products.

Corrugated medium paper

The gross profit margin of our group's corrugated medium paper was relatively low, of approximately 7.4% for the year ended 31 December 2008 as compared to that for the year ended 31 December 2009. Currently, pricing of our corrugated medium paper is principally determined with reference to the prevailing market price of the products, the price of our raw materials, and other overheads such as transportation costs. The relatively low gross profit margin of our corrugated medium paper for the year 2008 was mainly due to the following reasons.

Firstly, there was a decrease in average selling price of our corrugated medium paper in late 2008. As the prevailing market price of corrugated medium paper dropped significantly in late 2008 after the outburst of the global financial crisis, our Group adjusted the selling price of our corrugated medium paper accordingly. Secondly, there was an increase in our average purchase cost of waste paper. During the first three quarters of 2008, our purchase cost of waste paper was significantly higher than that of in the last quarter of 2008. Since most of our purchase orders for waste paper were placed during the first three quarters of 2008, at a relatively higher purchase cost, the overall purchase cost of waste paper for the year 2008 was higher as compared to that of in the year 2009. Lastly, since there was an increase in purchase cost of coal during the year 2008, our utilities cost was higher as compared to that of in year 2009. For details, please refer to the sub-section headed "Period-to-period analysis of our trading record — Comparison between the financial year ended 31 December 2009 and the financial year ended 31 December 2008 — Gross profit and gross profit margin" below.

Paper-based packaging products

Our Group's gross profit margin for paper-based packaging products was approximately 18.4% for the year ended 31 December 2008. Then, our Group's gross profit margin increased to approximately 21.5% for the year ended 31 December 2009 and decreased to 18.3% for the year ended 31 December 2010.

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

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

The gross margin of our paper-based packaging products was then decreased to approximately 18.3% for year ended 31 December 2010. It was mainly due to the increase in average purchase cost of raw paper from approximately RMB3,025 per tonne for the year ended 31 December 2009 to RMB3,852 per tonne for the year ended 31 December 2010. During the year, our Group recorded an increasing trend of average purchase cost of raw paper, especially in the last quarter of year 2010. The average purchase cost of raw paper in the last quarter of year 2010 increased at a rapid rate and reached to the highest level in year 2010. Though our Group has adjusted the selling price of our paper-based packaging products, which its average selling price per sq.m. increased to approximately RMB3.4, the increase in average selling price of our paper-based packaging products per sq.m. could not catch up the increase in purchase cost of raw paper, especially in the last quarter of year 2010, the gross profit margin of our paper-based packaging products decreased.

Other income

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

	Year ended 31 December					
	2008		**2009**		**2010**	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Other income						
Sales of electricity and steam	1,394	24.8%	2,666	40.8%	—	—
Government grants	270	4.8%	428	6.6%	2,211	41.9%
Interest income	2,696	48.1%	2,300	35.2%	1,448	27.5%
Sundry income	1,250	22.3%	1,134	17.4%	1,616	30.6%
Total	**5,610**	**100.0%**	**6,528**	**100.0%**	**5,275**	**100.0%**

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

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

Other gains and losses

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

Distribution and selling expenses

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Distribution and selling expenses						
Distribution and delivery costs	14,318	71.1%	13,999	68.3%	14,819	61.8%
Staff costs	4,908	24.4%	5,375	26.2%	8,146	34.0%
Depreciation expenses	616	3.1%	809	3.9%	700	2.9%
Others	288	1.4%	321	1.6%	305	1.3%
Total	**20,130**	**100.0%**	**20,504**	**100.0%**	**23,970**	**100.0%**
Total as % of sales	2.4%		2.8%		2.3%	

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

Distribution and delivery costs

Distribution and delivery costs mainly represented the costs incurred in the delivery of our paper-based packaging products and corrugated medium paper by both our owned truck fleets and third parties logistics companies in the PRC during the Track Record Period. The distribution and delivery costs accounted for approximately 71.1%, 68.3% and 61.8% of our total distribution and selling expenses for each of the three years ended 31 December 2010, respectively.

Staff costs

Staff costs mainly represented the salaries payable to our staff relating to the sales department which accounted for approximately 24.4%, 26.2% and 34.0% of our distribution and selling expenses for each of the three years ended 31 December 2010, respectively.

Depreciation expenses

Depreciation expenses mainly represented the wear off cost for our owned trucks which accounted for approximately 3.1%, 3.9% and 2.9% of our distribution and selling expenses for each of the three years ended 31 December 2010, respectively.

Administrative and other expenses

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	*% of Total*	*RMB'000*	*% of Total*	*RMB'000*	*% of Total*
Administrative and other expenses						
Staff costs	22,579	53.3%	19,017	48.9%	27,657	41.3%
Research and development costs	8,615	20.3%	8,393	21.6%	12,252	18.3%
Legal and professional fee	447	1.1%	404	1.0%	10,770	16.1%
Travelling expenses	3,403	8.0%	2,828	7.3%	3,113	4.6%
Depreciation expenses	1,121	2.6%	1,329	3.4%	2,013	3.0%
Rental expenses and management fees	1,162	2.7%	1,236	3.2%	1,886	2.8%
Office expenses	1,026	2.4%	965	2.5%	1,347	2.0%
Bank charges	631	1.5%	719	1.8%	970	1.4%
Others	3,440	8.1%	3,986	10.3%	6,966	10.5%
Total	**42,424**	**100.0%**	**38,877**	**100.0%**	**66,974**	**100.0%**
Total as % of sales	5.1%		5.2%		6.4%	

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

Staff costs

Staff costs mainly represented the salaries, benefits and the year-end bonuses payable to our administrative staffs which accounted for approximately 53.3%, 48.9% and 41.3% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Research and development costs

Research and development costs in respect of our products mainly represented the costs spent on improving the quality and widening the product range of corrugated medium paper for both our internal use to manufacture our paper-based packaging products and as product to sell to third parties. These costs accounted for approximately 20.3%, 21.6% and 18.3% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Legal and professional fee

Legal and professional fee mainly represented the listing expenses of our Group and it accounted for approximately 1.1%, 1.0% and 16.1% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Travelling expenses

Travelling expenses were mainly related to the expenses of business trips which accounted for approximately 8.0%, 7.3% and 4.6% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Depreciation expenses

Depreciation expenses were mainly related to the depreciation expenses of our office equipment and properties in Zhongshan and Zhuhai, Guangdong Province, the PRC, which accounted for approximately 2.6%, 3.4% and 3.0% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Rental expenses and management fees

Rental expenses and management fees mainly represented the expenses used for renting the offices for administrative purposes. These expenses accounted for approximately 2.7%, 3.2% and 2.8% of our total administrative and other expenses for each of the three years ended 31 December 2010, respectively.

Others

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

Finance costs

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

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

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Decrease in profit before tax for the year	165	278	642

Income tax expense

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

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

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

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

Period-to-period analysis of our trading record

Comparison between the financial year ended 31 December 2010 and the financial year ended 31 December 2009

Revenue

Revenue of our Group for the year ended 31 December 2010 was approximately RMB1,053.3 million, representing an increase of approximately RMB309.9 million or approximately 41.7% from approximately RMB743.4 million for the year ended 31 December 2009. Our Group's revenue comprises sales of paper-based packaging products and corrugated medium paper, which accounted for approximately 53.7% and 46.3%, respectively, of our Group's revenue for the ended 31 December 2010, and approximately 52.3%, and 47.7%, respectively, of our Group's revenue for the year ended 31 December 2009.

Revenue contributed by our sales of paper-based packaging products was approximately RMB565.9 million for the year ended 31 December 2010 as compared with approximately RMB388.5 million in the same period in 2009, representing an increase of approximately RMB177.4 million or approximately 45.7%. Such increase in revenue was mainly due to an increase in the total quantity of paper-based packaging products sold for the year ended 31 December 2010, in terms of sq.m., of approximately 29.3% from that in 2009, which was driven by an increase in our sales orders from those customers who are household air-conditioner manufacturers. The increase in revenue was also the result of an increase in average selling price per sq.m. of our paper-based packaging products of approximately 13.3%, for the year ended 31 December 2010 from the same period in 2009.

Revenue contributed by our sale of corrugated medium paper was approximately RMB487.4 million for the year ended 31 December 2010 as compared with approximately RMB354.9 million in the same period in 2009. Even with a decrease of approximately 8.2% in the total quantity of corrugated medium paper sold for the year ended 31 December 2010 from that in 2009, the average selling price per tonne increased by approximately 49.6% from that in 2009. As a result, our Group recorded an increase in sales of corrugated medium paper of approximately RMB132.5 million or approximately 37.3% from that of in 2009. The slight decrease in the sales volume of our corrugated medium paper, from approximately 183,000 tonnes for the year ended 31 December 2009 to approximately 168,000 tonnes for the year ended 31 December 2010, was mainly attributable to change in product mix sold to our customers. During the year ended 31 December 2010, more sales orders for low quantum corrugated medium paper, such as 75 g/m^2 corrugated medium paper, were placed by our customers as compared to that of in 2009; thus, the overall sales volume in terms of tonnes decreased. Meanwhile, the increase in average selling price of corrugated medium paper per tonne was primarily attributable to the increase in the then prevailing market price.

Cost of sales

Cost of sales of our Group for the year ended 31 December 2010 was approximately RMB866.3 million, representing an increase of approximately RMB262.0 million or approximately 43.4% from approximately RMB604.3 million for the year ended 31 December 2009. Significant increase in our cost of sales was mainly due to an increase in overall sales of our group during the year ended 31 December 2010 which then resulted in an increase in the related cost of sales. Furthermore, there was an increase in cost of manufacturing overhead by approximately RMB14.8 million, which was driven by the increased utilities cost. The increase in utilities cost from approximately RMB85.4 million for the year ended 31 December 2009 to approximately RMB101.1 million for the year ended 31 December 2010 was mainly attributable to the increase in the purchase cost of coal.

Gross profit and gross profit margin

Gross profit of our Group for the year ended 31 December 2010 was approximately RMB187.0 million, representing an increase of approximately RMB47.9 million or approximately 34.4% from approximately RMB139.1 million for the year ended 31 December 2009. Our gross profit margin for the year ended 31 December 2010 was approximately 17.8%, while the gross profit margin was approximately 18.7% for the year ended 31 December 2009. The slight decrease in gross profit margin of approximately 0.9% was principally due to the decrease in gross profit margin of our paper-based packaging products. During the year ended 31 December 2010, our Group recorded an increase in average purchase cost of raw paper from approximately RMB3,025 per tonne in 2009 to RMB3,852 per tonne for the year ended 31 December 2010. Although our Group since then adjusted our selling price of the paper-based packaging products, the average selling price per sq.m. increased to approximately RMB3.4. The increase in average selling price per sq.m. was at a smaller extent than the increase in purchase cost of raw paper. Thus, our Group's gross profit margin of paper-based packaging products decreased.

Other income

Other income of our Group for the year ended 31 December 2010 was approximately RMB5.3 million, while the amount was approximately RMB6.5 million for the year ended 31 December 2009. During the year ended 31 December 2010, our Group has ceased selling our electricity to those third parties. Also, in late 2010, our Group started to supply the electricity to the regional power grid at nil selling price, this arrangement with the regional power grid led to a net loss from the sales of electricity of approximately RMB0.3 million which was included in the administrative and other expenses for the year ended 31 December 2010.

Other gains and losses

Other gains and losses of our Group for the year ended 31 December 2010 were approximately RMB13.5 million. The amount mainly represented the gain on disposal of property plant and equipment during the period.

Distribution and selling expenses

Distribution and selling expenses of our Group for the year ended 31 December 2010 were approximately RMB24.0 million, or approximately 2.3% of our total revenue, representing an increase of approximately RMB3.5 million, or approximately 17.1%, from approximately RMB20.5 million, or approximately 2.8% of our total revenue for the year ended 31 December 2009. The increase in our distribution and selling expenses were primarily due to the increase in staff costs by approximately RMB2.8 million as a result of the increase in the average monthly headcount of our distribution and selling teams during the year ended 31 December 2010.

Administrative expenses and other expenses

Administrative expenses and other expenses of our Group for the year ended 31 December 2010 were approximately RMB67.0 million, representing an increase of approximately RMB28.1 million or approximately 72.2% from approximately RMB38.9 million for the year ended 31 December 2009. Significant increase in our administrative expenses was mainly due to an increase in listing expense, which was included in the legal and professional fee of approximately RMB10.0 million incurred during the year ended 31 December 2010. There was also an increase in staff cost of approximately RMB8.6 million as a result of the increase in the average monthly headcount of our administrative staffs as well as the increase in average monthly salaries which also led to an increase in administrative expenses. In addition, there was an increase in research and development costs of approximately RMB3.9 million for the investment in technological innovation for our production facilities.

Finance costs

Finance costs of our Group for the year ended 31 December 2010 were approximately RMB17.6 million, representing an increase of approximately RMB4.5 million, or approximately 34.4%, from approximately RMB13.1 million for the year ended 31 December 2009. The significant increase in our finance costs was mainly attributable to the increase in interest of discounting bills by approximately RMB3.2 million due to an increase in amount of bills received for increasing the flexibility of working capital for the year ended 31 December 2010 when compared to that in 2009.

Income tax expense

Income tax expense of our Group for the year ended 31 December 2010 was approximately RMB16.2 million, representing an increase of approximately RMB6.2 million or of approximately 62.0% from approximately RMB10.0 million for the year ended 31 December 2009. This increase was mainly due to an increase in our profit before tax during the year ended 31 December 2010. Our effective tax rate for the year ended 31 December 2010 was approximately 16.7%, as compared to approximately 13.8% for the year ended 31 December 2009. The increase in our effective tax rate is primarily attributable to the fact that: (i) the lapse of two year exemption period from one of our Group's subsidiaries, Zheng Ye Packaging (Zhu Hai) after the year ended 31 December 2009, and now is eligible for a 50% reduction of enterprise income tax treatment; and (ii) a listing fee of approximately RMB10.0 million was non-deductible in nature.

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

As a combined result of the factors described above, our Net Profit for the year ended 31 December 2010 increased significantly by approximately RMB18.8 million or approximately 30.2% from approximately RMB62.3 million for the year ended 31 December 2009 to approximately RMB81.1 million for the year ended 31 December 2010. Net profit margin for the year ended 31 December 2010 decreased from approximately 8.4% for the year ended 31 December 2009 to approximately 7.7% for the year ended 31 December 2010.

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

Revenue

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

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

Revenue contributed by our sale of corrugated medium paper was approximately RMB354.9 million for the year ended 31 December 2009 as compared to approximately RMB464.8 million for the year ended 31 December 2008. While we recorded a slight increase of approximately 3.4% in the sales volume of corrugated medium paper sold for the year ended 31 December 2009 from that of in

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

Cost of sales

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

Gross profit and gross profit margin

Gross profit of our Group for the year ended 31 December 2009 was approximately RMB139.1 million, representing an increase of approximately RMB36.2 million, or approximately 35.2%, from approximately RMB102.9 million for the year ended 31 December 2008. Our gross profit margin for the year ended 31 December 2009 was approximately 18.7%, while the gross profit margin was approximately 12.3% for the year ended 31 December 2008. The increases in our gross profit and gross profit margin were mainly attributable to the fact that the economy was recovering after the financial crisis in 2008. The relatively low gross profit margin of corrugated medium paper in year 2008 was attributable to the following reasons.

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

Secondly, the average purchase cost of waste paper was higher in 2008. During the first three quarters of 2008, our purchase cost of waste paper was approximately RMB1,384 per tonne, and then decreased to approximately RMB873 per tonne for the last quarter of 2008. Since most of our purchase orders for waste paper were placed during the first three quarters of 2008, at a relative higher purchase cost, the overall purchase cost of waste paper for 2008 was higher as compared to that in 2009.

Lastly, the utilities costs was higher in 2008. One of our Group companies, Yong Fa Paper, had its own heat and electricity co-generation plant located in Zhongshan with an aggregate installed capacity of 33 MW. The heat and electricity co-generation plant provides both electric power and steam to all of our paper machines for the production of our corrugated medium paper. Coal was the principal fuel for this heat and electricity co-generation plant. The higher purchase cost of coal during the year 2008 also led to a higher utilities costs of approximately RMB99.6 million in 2008, as compared to approximately RMB85.4 million in 2009. The above costs led to a higher average unit cost of our corrugated medium paper products of approximately RMB2,626 per tonne for the year ended 31 December 2008 as compared to approximately RMB1,939 per tonne for the year ended 31 December 2009.

Other income

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

Distribution and selling expenses

Distribution and selling expenses of our Group for the year ended 31 December 2009 were approximately RMB20.5 million, or approximately 2.8% of total revenue, representing a slight increase of approximately RMB0.4 million, or approximately 2.0%, from approximately RMB20.1 million, or approximately 2.4% of total revenue for the year ended 31 December 2008. The slight increase in our distribution and selling expenses were primarily due to the effect of an increase in staff cost by approximately RMB0.5 million as a result of slight increase in the average monthly headcount of distribution and selling teams for the expansion of our distribution team during the year 2009.

Administrative expenses and other expenses

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

Finance costs

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

Income tax expense

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

The higher effective tax rate of approximately 19.2% for the year ended 31 December 2008 was mainly due to an one-off adjustment on cost of sales in our local management account of one of our subsidiaries, which was approximately RMB18.4 million, and mainly arose from a change in the costing method of our Group's inventory after the outburst of the financial crisis in the last quarter of 2008.

After the outburst of the financial crisis in the last quarter of 2008, there was a significant decrease in the then prevailing market price of paper products such as corrugated medium paper and raw materials such as waste paper. In view of our Group's cost-plus pricing model for our paper-based products in determining the selling price of our Group's products, it would be more reasonable and necessary to reflect the latest cost of sales of our Group's products by matching that with the then prevailing purchase cost of the relevant raw materials. So the management of our Group adopted the then latest purchase costs of the relevant raw materials in the calculation of costs of sales during the preparation of our Group's then local management account of one of our PRC subsidiaries for the period after the outburst of the global financial crisis in 2008. Owing to the inadvertent mistake of management, such a change in costing method in the then local management account was not adjusted back to weighted-average costing method in the preparation of the PRC statutory account. This oversight resulted in a decrease in the cost of sales of that subsidiary as per its PRC statutory account and led to an increase in taxable profit of that subsidiary for 2008.

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

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

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

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

DISCUSSION ON MAJOR BALANCE SHEET ITEMS AND KEY FINANCIAL RATIOS

	For the year ended 31 December		
	2008	2009	2010
Gross profit margin[1]	12.3%	18.7%	17.8%
Net profit margin[2]	2.9%	8.4%	7.7%
Current ratio[3]	1.0	1.1	0.9
Quick ratio[4]	0.9	0.9	0.8
Gearing ratio[5]	37.4%	32.5%	39.8%
Inventory turnover days[6]	34 days	47 days	40 days
Debtors' turnover days[7]	75 days	87 days	85 days
Creditors' turnover days[8]	65 days	88 days	88 days

Notes:

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

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

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

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

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

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

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

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

Inventory and inventory turnover days

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

The inventory turnover days of our Group decreased from 47 days for the year ended 31 December 2009 to 40 days for the year ended 31 December 2010, primarily due to improved inventory control.

Our inventories was approximately RMB67.5 million as at 31 December 2008, then increased to approximately RMB87.0 million as at 31 December 2009. It was mainly attributable to the increase in inventory balance for the raw materials of our Group of approximately RMB19.3 million from approximately RMB45.4 million as at 31 December 2008 to approximately RMB64.7 million as at 31 December 2009. During the year 2009, our purchase price of raw materials experienced an increasing trend. Together with the increasing demand of our product, our Group procured more raw materials for our production. To avoid being seriously affected by the increasing raw material price, our Group procured more raw materials in the last quarter of 2009. The balance increased from RMB87.0 million to approximately RMB103.8 million as at 31 December 2010. This increase was mainly attributable to the increase in inventory balance for raw materials and finished goods of our Group totalling approximately RMB17.8 million from approximately RMB82.2 million as at 31 December 2009 to approximately RMB100.0 million as at 31 December 2010. Such increase was in line with the increased sales. Our Group procured the related raw materials for production in anticipation of an increase in sales volume in the first quarter of 2011. As of 31 March 2011, over 77.1% of our inventory as of 31 December 2010 was used or sold.

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

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

Our trade and bills receivable balances increased from approximately RMB294.3 million as at 31 December 2008 to approximately RMB328.7 million as at 31 December 2009 though our sales decreased from 2008 to 2009. The balances increased to approximately RMB529.7 million as at 31 December 2010. The increase in trade and bills receivable balances was mainly due to the facts that there was an increase in our sales and more customers were settling through bills in general which the maturity dates were up to six months.

The increase in trade receivables, from approximately RMB198.8 million as at 31 December 2009 to approximately RMB289.6 million as at 31 December 2010, was attributable to the increase in sales in the last quarter of 2010. These included several major customers utilising bills for settlements which were evidenced by the increase in bills receivables from approximately RMB129.8 million as at 31 December 2009 to approximately RMB240.1 million as at 31 December 2010.

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

The increase in trade receivables as at 31 December 2010 when compared to that as at 31 December 2009 was mainly attributable to the increase in sales in the last quarter of year 2010. The credit period granted by our Group to our paper-based packaging product customers were 30 to 120 days and our corrugated medium paper customers were 30 to 75 days, following the day of delivery, with a debtors' turnover of approximately 87 days for the year ended 31 December 2009 and approximately 85 days for the year ended 31 December 2010. The receivable balance as at 31 December 2009 and 31 December 2010 mainly represents three months of sales from October to December for year 2009 and 2010 for our Group. Revenue increased for the last quarter in 2010 to approximately RMB295.1 million when compared to the revenue for the last quarter in 2009 of approximately RMB211.8 million, thus an increase in receivable balances.

Our average debtors turnover days increased from 75 days for the year ended 31 December 2008 to 87 days for the year ended 31 December 2009 and remained stable at 85 days for the year ended 31 December 2010. The relatively low average debtors turnover days for the year ended 31 December 2008 was primarily attributable to the tighter credit control implemented by our management in late 2008 after the financial crisis.

As part of our credit control, our sales team monitors the credit quality of our trade receivables and closely follows up with our customers for any outstanding receivables. In determining impairment losses, we conduct regular reviews of ageing analysis and evaluate collectibles on an individual basis. Our provision for doubtful debts as at 31 December 2008, 2009 and 2010 was approximately RMB0.2 million, RMB1.0 million and nil, representing 0.1%, 0.5% and nil of our trade receivable balances (before provision for doubtful debts), respectively. Also, during the Track Record Period, there was no material change in the credit policy of our Group. As of 31 March 2011, approximately 85.6% or RMB247.9 million of our trade receivables as of 31 December 2010 had been settled. During the Track Record Period, we have written off the provision for doubtful debts during the year 2010 of approximately RMB1.0 million due to the default of a customer of Yong Fa Paper in December 2010.

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

Our trade payables primarily consist of outstanding balances due to suppliers for our purchases of waste paper and other raw paper for paper-based packaging products. Our Group was granted a credit period of 30 to 120 days from the majority of our suppliers. Our trade, bills payables increased from approximately RMB176.3 million as at 31 December 2008 to approximately RMB240.8 million as at 31 December 2009. The increase in trade and bills payables as at 31 December 2009 when compared to that as at 31 December 2008 was mainly attributable to faster payments requested by suppliers in late 2008 after the outburst of financial crisis. During the year 2009, since the world economy was recovering, our Group wanted better control of working capital and tried to repay the payables by fully utilise the credit period granted by our suppliers. The balances were further increased to approximately RMB337.5 million as at 31 December 2010. The increase in trade and bills payables as at 31 December 2010 when compared to that as at 31 December 2009 was mainly attributable to the increase in purchases in the last quarter of year 2010, in order to cope with the increasing turnover of our Group as mentioned under the sub-paragraph headed "Trade, bills and other receivables and debtors' turnover days".

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

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

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

Current and quick ratios

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

Gearing ratio

The gearing ratio of our Group decreased from approximately 37.4% as at 31 December 2008 to approximately 32.5 % as at 31 December 2009, then increased to approximately 39.8% as at 31 December 2010. The decrease in our gearing ratio from the year 2008 to the year 2009 was mainly attributable to the general increase in the trade, bills and other receivables, inventories and pledged deposits, which in turn increased the total assets of our Group from approximately RMB768.2 million as at 31 December 2008 to approximately RMB889.1 million as at 31 December 2009.

Our gearing ratio then increased to 39.8% as at 31 December 2010, which was mainly due to an increase in the amount of bank and other borrowings of approximately RMB176.2 million, mainly used for the acquisition of property, plant and equipment and general operating uses.

Bank and other borrowings

Our total bank and other borrowings increased from approximately RMB242.4 million as at 31 December 2008 to approximately RMB261.9 million as at 31 December 2009. The increased bank and other borrowings were used for the expansion of our business operations. The balance then further increased to approximately RMB438.1 million as at 31 December 2010. The increase of approximately RMB176.2 million was mainly attributable to: (i) increase in short term bank loans of approximately RMB39.1 million and (ii) increase in discounted bills receivables of approximately RMB144.0 million. The increased amount was mainly used to finance capital expenditures and settle trade payables. The capital expenditure of our Group during the period for the year ended 31 December 2010 was primarily in relation to the installation of our Group's new production facilities in Zhongshan, Guangdong Province, the PRC for the expansion of our capacity to cope with the anticipated growing demand in the market.

Property, plant and equipment

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

Our Group's property, plant and equipment increased by approximately 26.9% from approximately RMB223.9 million as at 31 December 2009 to approximately RMB284.1 million as at 31 December 2010. The increase was mainly attributable to the combined effect of: (i) the addition of property, plant and equipment in an amount of approximately RMB38.9 million for our factory in

Zhongshan in order to cope with the increasing demand of our paper-based packaging products; (ii) the recognition of approximately RMB43.0 million construction in progress which is mainly related to the enhancement of equipment and machinery for manufacturing of corrugated medium paper; and (iii) the depreciation expenses of approximately RMB19.4 million for the year ended 31 December 2010.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

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

	Year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Cash flow			
Net cash from/(used in) operating activities	22,875	92,597	(2,586)
Net cash used in investing activities	(31,942)	(65,235)	(42,662)
Net cash from/(used in) financing activities	9,462	(25,238)	42,652
Net increase/(decrease) in cash and cash equivalents	395	2,124	(2,596)
Cash and cash equivalents at beginning of the year	31,549	31,944	34,068
Cash and cash equivalents at end of the year	31,944	34,068	31,472

Net cash from/(used in) operating activities

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

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

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

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

We had a net cash outflow from operating activities of approximately RMB2.6 million for the year ended 31 December 2010, while our operating profit before changes in working capital for the same period was approximately RMB121.4 million. The operating cash outflow of approximately RMB110.1 million was primarily due to the composite effect of: (i) an increase in trade, bills and other receivables of approximately RMB207.7 million and (ii) an increase in trade and bills and other payables of approximately RMB112.8 million. As our Group expanded its business in 2010, revenue increased from approximately from RMB743.4 million for the year ended 31 December 2009 to approximately RMB1,053.3 million for the year ended 31 December 2010. In particular revenue increased for the last quarter of 2010 by approximately RMB295.1 million when compared to the revenue for the last quarter in 2009 of approximately RMB211.8 million. Also, the increase in trade and bills receivable balances was mainly due to the fact that more customers were settling through bills the maturity dates for which were, in general, up to six months. Thus, the trade and bills receivable balances increased, leading to a cash outflow from operating activities.

Net cash used in investing activities

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

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

Our net cash used in investing activities decreased from approximately RMB65.2 million for the year ended 31 December 2009 to approximately RMB42.6 million for the year ended 31 December 2010. The decrease mainly resulted from the combined effect of: (i) the payment of RMB75.7 million which was mainly related to our Group's addition of property, plant and equipment in 2010; and (ii) an advance to related parties.

Net cash from/(used in) financing activities

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

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

Our net cash outflow for financing activities was approximately RMB25.2 million for the year ended 31 December 2009 while our net cash inflow for financing activities was approximately RMB42.7 million for the year ended 31 December 2010. Such cash inflow was mainly attributable to the increase in cash obtained from the bank and other borrowings of approximately RMB607.8 million, which was partially offset by the repayment of bank and other borrowings of approximately RMB431.7 million.

Capital structure

As at 31 December 2010, we had net assets of approximately RMB289.8 million, comprising non-current assets of approximately RMB356.7 million (principally consisting of property, plant and equipment), net current liabilities of approximately RMB51.6 million and non-current liabilities of approximately RMB15.3 million (consisting of a long term obligation under the finance lease).

Capital expenditure management

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

	For the year ended 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure	56,265	30,032	81,910

	As at 31 December		
	2008	**2009**	**2010**
	RMB'000	*RMB'000*	*RMB'000*
Capital commitment	19,730	19,206	52,013

Capital expenditures and commitments mainly consist of the addition of property, plant and equipment for the new production facilities and the enhancement of equipment and machinery. Please refer to the sub-section "Property, plant and equipment" under this section for further details. The capital commitment as at 31 December 2010 is expected to be funded by two parts: (i) RMB32.1 million out of RMB52.0 million will be funded by finance lease; the lease will be effective in September 2011 and a monthly payment of approximately RMB0.7 million will last for 4 years; and (ii) the remaining commitments will be funded by short term bank loans and other borrowings and will probably be settled in September 2011.

Working capital position and cash flow management

We had net current liabilities of approximately RMB4.3 million as at 31 December 2008, which was mainly due to our current liabilities outweighed our current assets. Our current liabilities mainly included the short-term bank and other borrowings while our current assets mainly included trade and bill receivables. Such a position was primarily driven by an increase in short-term bank loans to support our capital expenditure on the increased production capacity in year 2008 the increase in short-term loans was mainly used as a capital expenditure which was discussed under the sub-section headed "Bank and other borrowings" under this section.

We had net current liabilities of approximately RMB51.6 million as at 31 December 2010. Our net current liabilities position can be principally attributed to the utilisation of short-term bank and other borrowings from licensed banks in the PRC. Such increased borrowing was mainly used to support our capital expenditure in 2010 for the addition and enhancement of production facilities amounting to approximately RMB81.9 million in total, so as to cope with the increasing demand of our paper-based packaging products. The borrowing was also used to finance our unsettled trade and other payables as at 31 December 2010. The considerable amount of unsettled trade and other payables as at 31 December 2010, which are included in current liabilities, is mainly attributable to a credit period of approximately 30 days to 120 days granted to us by our suppliers and the trade and bills payables turnover days were 90 days, during the same period. Since it is our policy to adjust our cash receipts to cater to changes in our cash payments in order to manage our cash flow, the significant balance of trade and other payables was in line with the trend of our trade and other receivables.

We finance our working capital requirements primarily through cash flow from our operating activities and bank borrowings. The net cash generated from or used in our operating activities during the Track Record Period amounted to approximately RMB22.9 million, RMB92.6 million and an outflow of RMB2.6 million for the three years ended 31 December 2010, respectively.

We will improve our cash and working capital position by:

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

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

(iii) generating continuous cash flows from our operations;

(iv) obtaining debt financing; and

(v) monitoring our capital expenditures.

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

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

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

Net current liabilities as at 31 March 2011

As at 31 March 2011, being the latest practicable date for the preparation of the working capital sufficiency statement in this prospectus, we had net current liabilities of approximately RMB47.2 million, comprising current assets of approximately RMB747.3 million and current liabilities of approximately RMB794.5 million. The following table sets out the composition of our unaudited current assets and liabilities as at 31 March 2011:

	As at 31 March 2011
	RMB'000
Current Assets	
Inventories	124,479
Trade and other receivables	521,227
Prepaid lease payments	1,368
Pledged bank deposits	47,708
Bank balances and cash	52,574
	747,356
Current Liabilities	
Trade and other payables	393,591
Obligations under finance leases	3,642
Amounts due to related parties	2,246
Bank and other borrowings	391,451
Tax liabilities	3,609
	794,539
NET CURRENT LIABILITIES	**(47,183)**

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

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

Directors' opinion on the sufficiency of our working capital

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

INDEBTEDNESS

Borrowing and banking facilities

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

For the balances of bank and other borrowings as at 31 December 2010, the amount mainly consists of three parts, which are: (i) short term bank loans of approximately RMB197.4 million; (ii) discounted bills receivables of approximately RMB236.5 million and (iii) other borrowings of approximately RMB4.2 million. The short term bank loans and other borrowings are expected to be funded by cashflow generated from operations and renewed bank loans while the discounted bills will be automatically settled when they become mature.

At the close of business on 31 March 2011, being the latest practicable date prior to the printing of this prospectus, our Group had outstanding bills payable of approximately RMB64.9 million and bank borrowings of approximately RMB388.8 million including short-term bank loans, bills discounted with recourse and trust receipt loans which was secured by fixed charges on certain of our Group's assets, including properties, lands, equipments, inventories and trade receivables. In addition, our Group had outstanding at that date obligations under finance leases of approximately RMB16.1 million and other borrowings of approximately RMB2.6 million which was secured by certain of our Group's equipment.

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

	As at 31 March 2011
	RMB'000
Bills Payables	64,897
Bank borrowings	388,816
Finance lease obligations	16,064
Other borrowings	2,635
Total	472,412

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

Debt securities

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

Contingent liabilities

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

Disclaimer

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

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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

DIVIDEND POLICY

During the years ended 31 December 2008, 2009 and 2010, our Group declared a dividend of approximately RMB6.1 million, RMB13.5 million and RMB84.5 million respectively to our shareholders.

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

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

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

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

Subject to the factors described above, our board currently intends to recommend at the next annual general meeting of our Company an annual dividend of approximately 30% of our net profit available for distribution to our Shareholders for the period beginning from the Listing Date and ending on 31 December 2011. The aforementioned special interim dividends should not be viewed as an indication of the amount of dividends that our Company may declare or pay in the future.

DISTRIBUTABLE RESERVE

The Company was only incorporated on 18 August 2010. As at 31 December 2010, there was no reserve available for distribution to our Shareholders.

PROPERTY INTERESTS

As at 31 March 2011, our property interests were valued by CB Richard Ellis Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III to this prospectus.

The table below shows the reconciliation of property interests of our Group from our audited combined financial statement as at 31 December 2010 to the unaudited net asset value of the property interests of our Group as at 31 March 2011:

	Total
	RMB'000
Net book value as of 31 December 2010 *(audited)*	
Buildings	71,921
Prepaid land lease payment	59,443
Less: depreciation and amortization for the three months ended 31 March 2011	(1,736)
Net book value as of 31 March 2011 *(unaudited)*	129,628
Add: valuation surplus as of 31 March 2011	143,922
Valuation as of 31 March 2011 as set out in Appendix III to this prospectus	273,550

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the audited net tangible assets of our Group as at 31 December 2010 as if the Global Offering had occurred on 31 December 2010 and is based on the combined net tangible assets derived from the audited financial information of our Group as at 31 December 2010, as set out in Appendix I to this prospectus and adjusted as follows.

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

	Audited combined net tangible assets of our Group as at 31 December 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HKD*
Based on the Offer Price of HK$1.43 per Offer Share	289,786	128,366	418,152	0.84	1.00

Notes:

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

(2) As at 31 March 2011, CB Richard Ellis Limited, an independent property valuer, performed an independent valuation for our Group's leasehold land and buildings based on market value. CB Richard Ellis Limited reported valuation of the land and buildings at an amount of RMB273,550,000 as at 31 March 2011 and the revaluation surplus was RMB143,922,000. Our Group will not account for these revaluation surpluses in its future financial statements according to its accounting policies. If they were accounted for, the annum increases in amortisation and depreciation would have been increased by approximately RMB3,866,000.

(3) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.43 per Offer Share, after deduction of the underwriting fees and other related expenses payable by the Company which has not been reflected in the net tangible assets of our Group as at 31 December 2010 and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 500,000,000 Shares (including the Shares in issue as at 31 December 2010, Shares under the Capitalisation Issue and the Global Offering) are in issue and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised.

OFF BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements as at 31 December 2010.

NO ADVERSE MATERIAL CHANGE

Our Directors have confirmed that there have been no material adverse change in the financial and trading position or prospects of our Group since 31 December 2010 and up to the Latest Practicable Date.

FUTURE PLANS

Please refer to the paragraph headed "Business strategies" under the section headed "Business" in this prospectus for a detailed description of our future plans.

PROPOSED USE OF NET PROCEEDS

Our Directors intend to apply the net proceeds from the Global Offering to finance our capital expenditure and business expansion, strengthen our capital base and improve our overall financial position. Based on the Offer Price of HK$1.43, the net proceeds from the Global Offering, assuming the Over-allotment Option is not exercised, and after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering, are estimated to be approximately HK$140.9 million. Our Directors currently intend to apply such net proceeds from the Global Offering as follows:

- approximately HK$49.3 million (equivalent to approximately 35% of our total estimated net proceeds) on setting up the manufacturing facilities in our new production base in Hefei, the PRC;

- approximately HK$42.3 million (equivalent to approximately 30% of our total estimated net proceeds) on setting up the manufacturing facilities in our new production base in Zhengzhou, the PRC;

- approximately HK$25.4 million (equivalent to approximately 18% of our total estimated net proceeds) on upgrading our production facilities;

- approximately HK$7.0 million (equivalent to approximately 5% of our total estimated net proceeds) on research and development;

- approximately HK$2.8 million (equivalent to approximately 2% of our total estimated net proceeds) on upgrading our ERP system;

- approximately HK$14.1 million (equivalent to approximately 10% of our total estimated net proceeds) for general working capital purposes.

We intend to apply the net proceeds for the above usages as soon as the funds are available.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK$166.8 million. We intend to apply the additional net proceeds to the above uses in the proportion stated above.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC for so long as it is in our best interest. We will also disclose the same in the relevant annual report.

JOINT GLOBAL COORDINATORS & JOINT BOOKRUNNERS

Oriental Patron Securities Limited
CMB International Capital Limited

HONG KONG UNDERWRITERS

Joint Lead Managers

Oriental Patron Securities Limited
CMB International Capital Limited
Cinda International Securities Limited

Co-Managers

SBI E2-Capital Financial Services Limited
Guotai Junan Securities (Hong Kong) Limited
Tung Shing Securities (Brokers) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering for subscription of 12,500,000 New Shares at the Offer Price under the Hong Kong Public Offer, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Hong Kong Underwriters have agreed, severally, but not jointly, on and subject to the terms and conditions in the Hong Kong Underwriting Agreement, to procure subscribers for, or failing which they shall subscribe for, the Hong Kong Public Offer Shares.

The Hong Kong Underwriting Agreement is subject to various conditions, which include, but without limitation, the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus. In addition, the Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Joint Global Coordinators (on behalf of the Hong Kong Underwriters) shall be entitled to terminate the Hong Kong Underwriting Agreement upon the occurrence of any of the following events by notice in writing to our Company with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the "**Termination Time**") if prior to the Termination Time,

(a) there comes to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters:

(i) any matter or event showing any of the representations, warranties, agreements or undertakings contained in the Hong Kong Underwriting Agreement given by, among others, our Company to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the representations, warranties, agreements or undertakings contained in the Hong Kong Underwriting Agreement or any other provisions of the Hong Kong Underwriting Agreement by any party to the Hong Kong Underwriting Agreement (other than the Joint Global Coordinators and Hong Kong Underwriters) which, in any such cases, is considered, in the sole and absolute opinion of the Joint Global Coordinators, to be material in the context of the Global Offering; or

(ii) any statement contained in this prospectus, the Application Forms, the web proof information pack, the formal notice and any announcements issued by our Company (including any supplement or amendment to each of the said documents) has become or been discovered to be untrue, incorrect or misleading in any respect which is considered, in the sole and absolute opinion of the Joint Global Coordinators, to be material in the context of the Global Offering; or

(iii) any event, series of events, matter or circumstance occurs or arises on or after the date of the Hong Kong Underwriting Agreement and before the Termination Time, being an event, matter or circumstance which, if it had occurred before the date of the Hong Kong Underwriting Agreement, would have rendered any of the representations, warranties, agreements or undertakings contained in the Hong Kong Underwriting Agreement untrue, incorrect or misleading in any respect, and which is considered, in the sole and absolute opinion of the Joint Global Coordinators, to be material in the context of the Global Offering; or

(iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole opinion of the Joint Global Coordinators, a material omission in the context of the Global Offering; or

(v) any event, act or omission which gives or is likely to give rise to any liability of our Company or the Controlling Shareholders arising out of or in connection with the breach of any of the representations, warranties, agreements or undertakings contained in the Hong Kong Underwriting Agreement; or

(vi) any breach by any party to the Hong Kong Underwriting Agreement (other than the Joint Global Coordinators and the Hong Kong Underwriters) of any provision of the Hong Kong Underwriting Agreement which, in the sole and absolute opinion of the Joint Global Coordinators, is material; or

(b) there shall have developed, occurred, existed, or come into effect any event or series of events, matter or circumstance whether occurring or continuing before, on and/or after the date of the Hong Kong Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the BVI, Bermuda, the United States, Canada, the United Kingdom, the European Union (or any member thereof) or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of our Group; or

(ii) any change in, or any event or series of events or development resulting or likely to result in any change in the local, regional or international financial, equity securities, currency, political, military, industrial, economic, stock market or other market conditions or prospects in or affecting Hong Kong, the PRC, the BVI, Bermuda, the United States, Canada, the United Kingdom, the European Union (or any member thereof) or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of our Group; or

(iii) any change in the system under which the value of the HK dollars or Renminbi is linked to that of the US dollars; or

(iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or

(v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC, the BVI, Bermuda, the United States, Canada, the United Kingdom, the European Union (or any member thereof) or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law, rule, or regulation to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of our Group; or

(vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of our Group; or

(vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the United States or by the European Union (or any member thereof) or any other country or organisation on Hong Kong, the PRC or any other jurisdiction relevant to the business and/or operation of our Group; or

(viii) a general moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance service in or affecting the PRC, Hong Kong or any other jurisdiction relevant to the business and/or operation of our Group; or

(ix) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, tsunami, fire, flood, explosion, epidemic, terrorism (whether or not responsibility has been claimed), strike or lock-out; or

(x) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting Hong Kong, the PRC, the United States, Canada, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to the business and/or operation of our Group; or

(xi) a demand by any creditor for repayment or payment of any material indebtedness of any other member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or

(xii) any material loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(xiii) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

(xiv) any litigation or claim of importance of any third party being instigated or threatened against any member of our Group;

which, in the sole and absolute opinion of the Joint Global Coordinators:

(1) is or will be, or is likely to be, adverse to the business, financial, trading or other condition or prospects of our Group taken as a whole or any member of our Group; or

(2) has or will have or is likely to have an adverse effect on the success of the Global Offering or the level of the Offer Shares being applied for or accepted, the distribution of the Offer Shares or the demand or market price of the Shares following the Listing; or

(3) for any other reason makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Global Offering as a whole.

For the above purpose:

(a) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

(b) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Lock-up undertakings to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to the Joint Global Coordinators (on behalf of all the Hong Kong Underwriters) that, and that each of the Controlling Shareholders have undertaken to the Joint Global Coordinators (on behalf of all the Hong Kong Underwriters) to procure that:

(a) except for the issue of Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the Capitalisation Issue, the grant of options under the Share Option Scheme and the issue of Shares on exercise thereof or as otherwise with the Joint Global Coordinators' prior written consent, and unless in compliance with the Listing Rules, we will not, and will procure that our subsidiaries will not, at any time after the date of this prospectus up to and including the date falling six months from the Listing Date (the "**First Six-Month Period**") (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or, as applicable to our subsidiaries only, repurchase, any of its share capital, debt capital or any securities of our Company or any of its subsidiaries or any interest therein (including but not limited to any warrants and securities convertible into or exercisable or exchangeable for or that represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital, debt capital or securities or interest therein as described in paragraph (i) above; or (iii) enter into any transaction with the same economic effect as any transaction described in paragraph (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i), (ii) or (iii) above, whether any of the foregoing transactions described in paragraph (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise; and

(b) in the event of our Company entering into or agreeing to enter into any of the foregoing transactions in respect of any Share or other securities of our Company or any of its subsidiaries or any interest therein by virtue of the aforesaid exceptions or during the six-month period commencing from the expiry of the First Six-Month Period (the "**Second Six-Month Period**"), we will take all reasonable steps to ensure that such action will not create a disorderly or false market in any of the Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of the Controlling Shareholders has jointly and severally undertaken to the Joint Global Coordinators (on behalf of all the Hong Kong Underwriters) that:

(a) save as pursuant to the Stock Borrowing Agreement and/or the Share Option Scheme, he/it will not, and will procure that the relevant registered holder(s) and his/its associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it will not, without the Joint Global Coordinators' prior written consent and unless in compliance with the Listing Rules, at any time during the First Six-Month Period (i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any share sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital of our Company or any securities of our Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital, debt capital or other securities of our Company or any interest therein; or (iii) enter or agree to enter into, conditionally or unconditionally, or effect any transaction with the same economic effect as any of the transactions referred to in paragraph (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into or effect any of the transactions referred to in (i), (ii) or (iii) above, whether any of the foregoing transactions described in (i), (ii) or (iii) above is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so;

(b) he/it will not, at any time during the Second Six-Month Period, enter into any of the foregoing transactions in paragraph (a)(i), (ii) or (iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it will cease to be a controlling shareholder (as such term is defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be, or regarded as, controlling shareholders (as such term is defined in the Listing Rules) of our Company;

(c) until expiry of the Second Six-Month Period, in the event that he/it enters into any such transactions in paragraphs (a) or (b) above or agrees or contracts to or publicly announces an intention to enter into any such transactions by virtue of the aforesaid exceptions, he/it will take all reasonable steps to ensure that such action will not create a disorderly or false market in the Shares or other securities of our Company; and

(d) he/it will comply with the requirements of Rule 10.07(1) and Notes (1), (2) and (3) to Rule 10.07(2) of the Listing Rules (including procuring our Company to comply with the requirements under Note (3) of Rule 10.07(2) of the Listing Rules), and comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder controlled by him/it and his/its associates and companies controlled by him/it of any Shares or other securities of our Company.

Each of the Controlling Shareholders has jointly and severally undertaken to the Joint Global Coordinators (on behalf of all the Hong Kong Underwriters) that at any time during the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date falling twelve months from the Listing Date, he/it will:

(i) when he/it pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which he/it is the beneficial owner, immediately inform our Company and the Sole Sponsor in writing of any such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and

(ii) when he/it receives any indication, whether verbal or written, from any such pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of any such indication.

Our Company has undertaken to the Sole Sponsor, and the Controlling Shareholders have undertaken to the Sole Sponsor that they will procure our Company to, inform the Stock Exchange as soon as our Company has been informed of the matters mentioned in paragraphs (i) and (ii) immediately above, and to make a public disclosure of such matters as soon as possible thereafter in accordance with the Listing Rules.

Lock-up undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Controlling Shareholders

In accordance with Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange and our Company that except pursuant to the Stock Borrowing Agreement, the Global Offering and the Over-allotment Option, it or he shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the period commencing from the date of this prospectus in which disclosure of his/its shareholding in our Company is made and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which it or he is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of six months from the date on which the period referred to in (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he would cease to be our Controlling Shareholder.

Our Controlling Shareholders have further undertaken to us and the Stock Exchange that it or he will, within a period of commencing from the date of this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

(a) any pledges or charges of any shares or securities of our Company beneficially owned by any of our Controlling Shareholders, whether directly or indirectly, in favor of any authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and the number of such shares or securities of our Company so pledged or charged; and

(b) any indication received by it/him, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such securities will be disposed of.

Undertaking by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company have undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules which includes the issue of Shares pursuant to the Share Option Scheme.

International Underwriting Agreement

In connection with the International Placing, it is expected that our Company and the Controlling Shareholders will enter into the International Underwriting Agreement with the Joint Global Coordinators, the Joint Lead Managers and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below.

Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters are expected to severally, but not jointly, agree to procure subscribers and purchasers to subscribe for or purchase, or failing which they shall subscribe for or purchase, the International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. The International Underwriting Agreement is conditional on and subject to the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the International Underwriting Agreement, our Company and the Controlling Shareholders will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the paragraph headed "Lock-up undertakings to the Hong Kong Underwriters" above in this section.

Our Company is expected to grant to the International Underwriters the Over-allotment Option exercisable by the Stabilising Manager, on behalf of the International Underwriters, at any time after the Listing Date until the 30th day after the last date for lodging of the Application Forms, to require our Company to allot and issue up to an aggregate of 18,750,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the Offer Price per Offer Share under the International Placing, solely to cover over-allocations, if any, in the International Placing.

Commission and expenses

The Hong Kong Underwriters will, and the International Underwriters are expected to, receive an underwriting commission of 2.5% and 3.5% of the aggregate Offer Price payable for the Hong Kong Public Offer Shares and the International Placing Shares, respectively, in accordance with the terms of the Underwriting Agreements, out of which the Underwriters may pay any sub-underwriting commission in connection with the Global Offering. Based on the Offer Price of HK$1.43 per Offer Share, the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK$37.8 million in total (assuming the Over-allotment Option is not exercised), which will be payable by us. We will also pay for all expenses in connection with any exercise of the Over-allotment Option or over-allocations in the International Placing.

SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a documentation fee. The Joint Global Coordinators and the other Underwriters will or are expected to receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and expenses" above.

We will appoint, before the Listing Date, CMBI as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the year ending 31 December 2012.

Save as disclosed above, none of the Sole Sponsor and the other Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group or has any interest in the Global Offering.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Global Coordinators will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

THE STRUCTURE OF THE GLOBAL OFFERING

The Global Offering consists of:

- the International Placing ; and
- the Hong Kong Public Offer.

Oriental Patron Securities Limited and CMB International Capital Limited are the Joint Global Coordinators.

An aggregate of 12,500,000 New Shares have been initially allocated to the Hong Kong Public Offer for subscription, subject to adjustment as mentioned below and under the Listing Rules. An aggregate of 112,500,000 New Shares are initially offered under the International Placing for subscription, subject to adjustment as mentioned below and under the Listing Rules and the exercise of the Over-allotment Option.

Investors are free to select to apply for the Hong Kong Public Offer Shares or the International Placing Shares, but they may only receive Shares under the Hong Kong Public Offer **OR** the International Placing but not both. Our Directors and the Joint Global Coordinators will take all reasonable steps to identify any multiple applications under the Hong Kong Public Offer and the International Placing which are not allowed and are bound to be rejected.

In order to facilitate settlement of the over-allocations in the International Placing and for the purpose of stabilisation of the market price of the Shares (if any), OPSL may borrow from Hu Zheng Investment up to 18,750,000 Shares held by Hu Zheng Investment, equivalent to the maximum number of Shares to be issued on the exercise of the Over-allotment Option in full, pursuant to the Stock Borrowing Agreement.

The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to the restriction of Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- such stock borrowing arrangement with Hu Zheng Investment will only be effected by OPSL for settlement of the over-allocations in the International Placing and for the purpose of stabilisation of the market price of the Shares;
- the maximum number of Shares which may be borrowed from Hu Zheng Investment will be limited to the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option (i.e. 18,750,000 Shares);
- the same number of Shares so borrowed must be returned to Hu Zheng Investment or its nominees (as the case may be) on or before the third Business Day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Over-allotment Shares have been issued;
- the arrangement under the Stock Borrowing Agreement will be effected in compliance with all the applicable laws, rules and regulatory requirements; and
- no payment or other benefits will be made to Hu Zheng Investment by OPSL under the Stock Borrowing Agreement.

PRICE PAYABLE UPON APPLICATION FOR THE HONG KONG PUBLIC OFFER SHARES

Investors of the Hong Kong Public Offer Shares will be required to pay the Offer Price of HK$1.43 plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% transaction levy imposed by the SFC amounting to a total of HK$2,888.83 for each board lot of 2,000 Shares.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of applications for the Hong Kong Public Offer Shares will be conditional upon:

- the Listing Committee granting the listing of, and permission to deal in, on the Main Board, our Shares in issue, the Offer Shares and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme; and

- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of a waiver of any condition(s)) and not being terminated in accordance with the respective terms and conditions of the Underwriting Agreements),

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If any of the above conditions has not been fulfilled or waived prior to the time(s) and date(s) specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of lapse of the Global Offering will be caused to be published by our Company in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application money will be refunded, without interest. The terms on which the application money will be refunded are set forth under "Refund of your money" on the Application Forms. In the meantime, all application money received from the Hong Kong Public Offer will be held in a separate bank account (or separate bank accounts) in Hong Kong.

THE INTERNATIONAL PLACING

The Company is initially offering 112,500,000 New Shares at the Offer Price, representing 90% of the initial number of the Offer Shares, for subscription by way of the International Placing, subject to adjustment as mentioned below and under the Listing Rules and the exercise of the Over-allotment Option.

Investors subscribing for or purchasing the International Placing Shares are also required to pay 1% brokerage, 0.003% transaction levy imposed by the SFC and 0.005% Stock Exchange trading fee.

All decisions concerning the allocation of the International Placing Shares to prospective placees pursuant to the International Placing will be made on the basis of, and by reference to, a number of factors including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is expected or likely to buy further Shares, or hold or sell our Shares, after the Listing Date. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid Shareholder base for the benefit of the Company. In addition, the Company and the Joint Global Coordinators will use their best endeavours to observe the minimum public float requirement under the Listing Rules when making allocations of the International Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

In connection with the International Placing, the Company intends to grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators at any time from the Listing Date up to the 30th day after the last day for lodging of applications under the Hong Kong Public Offer, subject to the terms of the International Underwriting Agreement. Pursuant to the Over-allotment Option, the Company may be required to allot and issue, at the Offer Price, up to an additional 18,750,000 New Shares, representing 15% of the initial number of the Offer Shares, to cover over-allocations in the International Placing. If the Over-allotment Option is exercised in full, the Offer Shares will represent 27.7% of the Company's enlarged issued share capital following completion of the Global Offering. In the event that the Over-allotment Option is exercised, a press announcement will be made by the Company.

The total number of the International Placing Shares to be allotted and issued may change as a result of adjustment mentioned below and any adjustment of the unsubscribed Hong Kong Public Offer Shares to the International Placing as mentioned under "The Hong Kong Public Offer" below.

THE HONG KONG PUBLIC OFFER

The Company is initially offering 12,500,000 New Shares under the Hong Kong Public Offer, at the Offer Price, representing 10% of the initial number of the Offer Shares, for subscription by way of a Hong Kong public offer in Hong Kong, subject to the reallocation as mentioned below. The Hong Kong Public Offer is lead managed by the Joint Lead Managers and is fully underwritten by the Hong Kong Underwriters (subject to the Company and the Joint Global Coordinators agreeing to the Offer Price). Applicants for the Hong Kong Public Offer Shares are required to pay on application the Offer Price plus 1% brokerage, 0.003% transaction levy imposed by the SFC and 0.005% Stock Exchange trading fee.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for the Hong Kong Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he or she or it has not taken up and will not indicate an interest to take up any International Placing Shares nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offer is bound to be rejected. The Hong Kong Public Offer will be subject to the conditions stated under "Structure and conditions of the Global Offering" above.

If the Hong Kong Public Offer Shares are not fully subscribed, the Joint Global Coordinators will have an absolute discretion to re-allocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing in such number as it considers appropriate.

The total number of the Hong Kong Public Offer Shares to be allotted and issued may change as a result of the adjustment as mentioned below.

Basis of allocation of the Hong Kong Public Offer Shares

For allocation purpose only, the number of the Hong Kong Public Offer Shares (after taking into account any adjustment referred to below) will be divided equally into two pools: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares in the value of HK$5.0 million (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) or less. The Hong Kong Public Offer Shares available in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares in the value of more than HK$5.0 million (excluding transaction levy imposed by the SFC, the Stock Exchange trading fee and the brokerage payable thereon) and up to the total initial value of pool B.

Investors should be aware that allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the unsubscribed Hong Kong Public Offer Shares will be transferred to satisfy the demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of Hong Kong Public Offer Shares initially available under pool A or pool B is bound to be rejected.

When there is over-subscription, allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offer, both in relation to Pool A and Pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation in each pool may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by each applicant. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

ADJUSTMENT BETWEEN THE INTERNATIONAL PLACING AND THE HONG KONG PUBLIC OFFER

If the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be re-allocated to the Hong Kong Public Offer from the International Placing will increase to 37,500,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be re-allocated to the Hong Kong Public Offer from the International Placing will increase so that the total number of Shares available under the Hong Kong Public Offer will increase to 50,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the initial number of the Hong Kong Public Offer Shares, then the number of Shares to be re-allocated to the Hong Kong Public Offer from the Placing will increase so that the total number of Shares available under the Hong Kong Public Offer will increase to 62,500,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Global Offering (assuming the Over-allotment Option is not exercised).

In each such case, the additional Shares re-allocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of the International Placing Shares will be correspondingly reduced.

STABILISATION IN HONG KONG

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may purchase newly issued securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial Hong Kong public offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the initial offering price.

In connection with the Global Offering, OPSL has been or will be appointed as the stabilising manager (the "**Stabilising Manager**") for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilising transactions be effected in connection with the Global Offering, such transactions will be effected in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation. The stabilising manager or any person acting for it may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. This stabilising activity may include the exercise of the Over-allotment Option or market purchase of our Shares in the secondary market or selling our Shares to liquidate a position held as a result of the purchase. Any such market purchase will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity which, if commenced, will be conducted at the absolute discretion of the Stabilising Manager. Such stabilising activity may be discontinued at any time, and is required to be brought to an end after a limited period.

An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilizing) Rules made under the SFO.

The number of Shares which can be over-allotted will not exceed the number of Shares which may be issued upon the exercise of the Over-allotment Option, being 18,750,000 Shares, representing 15% of the number of the Offer Shares. The stabilisation price will not exceed the Offer Price or other pricing limits stipulated by the Securities and Futures (Price Stabilizing) Rules.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager or any person acting for it may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager or any person acting for it will maintain the long position is at the absolute discretion of the Stabilising Manager. In the event that the Stabilising Manager or any person acting for it liquidates this long position, it may have an adverse impact on the market prices of our Shares.

Stabilising action by the Stabilising Manager or any person acting for it is not permitted to support the price of our Shares for longer than the stabilising period, which begins from the Listing Date and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offer. The stabilising period is expected to expire on Sunday, 26 June 2011 and after this date, the demand for our Shares, and the market price, may fall.

Any stabilising action taken by the Stabilising Manager or any person acting for it may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilising period.

Stabilisation is allowed for initial public offering transactions the total value of the relevant securities offered thereunder at the offer price is not less than HK$100.0 million and is an offer to members of the public in Hong Kong the subject matter of a prospectus (as defined in the Companies Ordinance) and the securities offered are uniform in all respects with the securities for the time being traded or admitted to trading on a recognised stock exchange (as defined in the SFO) or by means of relevant authorised trading services.

LISTING DATE

Assuming that the Global Offering becomes unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms) at any time prior to 8:00 a.m. on the Listing Date, it is expected that dealings in our Shares on the Main Board will commence at 9:00 a.m. (Hong Kong time) on Friday, 3 June 2011.

1. METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

You may apply for the Hong Kong Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- applying through the **HK eIPO White Form** service by submitting an electronic application to the HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk**; or
- **instructing** HKSCC **electronically** to cause HKSCC Nominees to apply for Hong Kong Public Offer Shares on your behalf.

You or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through the **HK eIPO White Form** service or by giving electronic application instructions to HKSCC.

2. WHO CAN APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You can apply for the Hong Kong Public Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a US person (as defined in Regulation S);
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Public Offer Shares online through the **HK eIPO White Form** service (**www.hkeipo.hk**), in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **HK eIPO White Form** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **HK eIPO White Form** service.

If the applicant is a **firm**, the application must be in the names of the individual members, not the firm's name. If the applicant is a **body corporate**, the Application Form must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, our Company and the Joint Global Coordinators (as our agent and on behalf of the Hong Kong Underwriters) may accept it at our discretion, subject to any conditions we think fit, including production of evidence of the authority of the attorney.

Save under the circumstances permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you or any person(s) for whose benefit you are applying:

- are/is an existing beneficial owner of shares in our Company or any member of our Group;
- are/is the chief executive or a director of our Company or any member of our Group;
- are/is an associate (as defined in the Listing Rules) of any of the above;
- are/is a connected person (as defined in the Listing Rules) of our Company or any member of our Group or a person who will become a connected person (as defined in the Listing Rules) immediately upon completion of the Global Offering; or
- have been allocated or have applied for International Placing Shares under the International Placing save under the circumstances permitted by the Listing Rules.

The number of joint applicants must not exceed four.

3. WHICH APPLICATION FORM TO USE

(a) WHITE Application Forms

Use a **WHITE** Application Form if you want the Hong Kong Public Offer Shares to be registered in your own name.

(b) HK eIPO White Form

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Public Offer Shares by means of the **HK eIPO White Form** service by submitting an application online through the designated website at **www.hkeipo.hk**. Use the **HK eIPO White Form** service if you want the Shares to be registered in your own name.

(c) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(d) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **YELLOW** Application Form, you may **instruct HKSCC electronically** to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf via CCASS. Any Hong Kong Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

4. WHERE TO COLLECT THE PROSPECTUSES AND THE APPLICATION FORMS

You can collect **WHITE** Application Form and this prospectus from:

Oriental Patron Securities Limited
27/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

or

CMB International Capital Limited
Units 1803–4, 18/F, Bank of America Tower
12 Harcourt Road, Central
Hong Kong

or

Cinda International Securities Limited
45/F Cosco Tower
183 Queen's Road
Central
Hong Kong

or

SBI E2-Capital Financial Services Limited
Unit A2, 32/F, United Centre
95 Queensway
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

Tung Shing Securities (Brokers) Limited
22/F China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

or any of the following branches of The Bank of East Asia, Limited:

District	Branch name	Address
Hong Kong	Main Branch	10 Des Voeux Road Central, HK
	Taikoo Shing Branch	Shop G1010-1011, Yiu Sing Mansion
Kowloon	Mongkok Branch	638–640 Nathan Road
	Kwun Tong Branch	7 Hong Ning Road
New Territories	Tai Po Plaza Branch	Units 49–52, Level 1, Tai Po Plaza
	East Point City Branch	Shop 217B, Level 2, East Point City, 8 Chung Wa Road, Tseung Kwan O

or any of the following branches of Wing Lung Bank Limited:

District	Branch name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
Kowloon	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Shatin Plaza Branch	21 Shatin Centre Street
	Tsuen Wan Branch	251 Sha Tsui Road

You can collect **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Tuesday, 24 May 2011 until 12:00 noon on Friday, 27 May 2011 from **the Depository Counter of HKSCC** at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. Your stockbrokers may also have the Application Forms and this prospectus available.

5. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

(a) Obtain a **WHITE** or **YELLOW** Application Form.

(b) There are detailed instructions on each Application Form. You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

(c) Decide how many Hong Kong Public Offer Shares you want to purchase. The table in the Application Forms sets out the total amount payable for the specified number of Hong Kong Public Offer Shares.

(d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the relevant company chop (bearing the relevant company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, our Company and the Sole Sponsor (or their respective agents or nominees) may accept it at our discretion, and subject to any conditions we think fit, including production of evidence of the authority of your attorney.

(e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your (or your nominee's) account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named joint applicant;
- be made payable to "The Bank of East Asia (Nominees) Limited — Zhengye International Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong, and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;

- be made payable to "The Bank of East Asia (Nominees) Limited — Zhengye International Public Offer"; and
- be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all of these requirements.

(f) If you are applying for Shares using a **WHITE** or **YELLOW** Application Form, you should lodge your Application Form in the special collection boxes provided at any of the branches of The Bank of East Asia, Limited or Wing Lung Bank Limited listed in this section under the section headed "4. Where to collect the Prospectuses and the Application Forms" and by the time referred to in this section under the section headed "11. Time for applying for the Hong Kong Public Offer Shares — (a) **WHITE** or **YELLOW** Application Forms".

(g) Multiple or suspected multiple applications are liable to be rejected. Please refer to the section headed "10. How many applications you may make for the Hong Kong Public Offer Shares" in this section.

(h) In order for the **YELLOW** Application Forms to be valid:

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
  - — the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
  - — you must fill in your full name and your Hong Kong Identity Card number; and
  - — you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
  - — you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
  - — you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
  - — you must insert your company name and your company's Hong Kong business registration number; and
  - — you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company's name) in the appropriate box.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of the CCASS Participant I.D. and/or company chop bearing its company name or other similar matters may render the application invalid.

(i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

(j) If an application is made by a person duly authorised under a valid power of attorney, our Company and the Joint Global Coordinators (as our agent and on behalf of the Hong Kong Underwriters) may accept it at our discretion, subject to any conditions we think fit, including production of evidence of the authority of the attorney. Our Company and the Joint Global Coordinators (as our agent and on behalf of the Hong Kong Underwriters), will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

6. HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

Details of the procedure for refunds are set out below in this section under the section headed "17. Despatch/collection of share certificates, e-Auto Refund payment instructions and refund cheques".

You should note that by signing on the Application Form:

(a) you agree with our Company and each Shareholder of our Company that the Shares are freely transferable by the holders thereof;

(b) you confirm that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(c) you agree that our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;

(d) you undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest for, applied for or taken up any Offer Shares under the International Placing; and

(e) you agree to disclose to our Company, our share registrars, the receiving bankers, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers and the Underwriters and their respective advisers and agents personal data and other information which they require about you or the person(s) for whose benefit you have made the application.

7. HOW TO APPLY THROUGH THE HK eIPO WHITE FORM SERVICE

(a) If you are an individual and meet the criteria set out above in relation to applying for Hong Kong Public Offer Shares through the **HK eIPO White Form** service in this section under the section headed "2. Who can apply for the Hong Kong Public Offer Shares", you may apply through the **HK eIPO White Form** service by submitting an application through the designated website at **www.hkeipo.hk**. If you apply through the **HK eIPO White Form** service the Shares will be issued in your own name.

(b) Detailed instructions for application through the **HK eIPO White Form** service are set out on the designated website at **www.hkeipo.hk**. You should read these instructions carefully. If you do not follow the instructions, you application may be rejected by the designated HK eIPO White Form Service Provider and may not be submitted to our Company.

(c) In addition to the terms and conditions set out in this prospectus, the designated HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** service. Such terms and conditions are set out on the designated website at **www.hkeipo.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service (**www.hkeipo.hk**), you are deemed to have authorised the designated HK eIPO White Form Service Provider to transfer the details of your application to our Company and our share registrars.

(e) You may submit an application through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.hkeipo.hk**.

(f) You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Tuesday, 24 May 2011 until 11:30 a.m. on Friday, 27 May 2011 (24 hours daily, except on the last application day) or such later time as described in this section below under the section headed "Effect of bad weather conditions on the last application day" below. The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 27 May 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in this section under this section headed "Effect of bad weather conditions on the last application day" below.

(g) You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m. on the said date, you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. You should make payment for your application made through the **HK eIPO White Form** service in accordance with the methods and instructions set out in the designated website at **www.hkeipo.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, 27 May 2011, or such later time as described in this section under the section headed "Effects of bad weather conditions on the last application day" below, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.hkeipo.hk**.

Effect of bad weather conditions on the last application day

The latest time for submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service will be 11:30 a.m., and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, on Friday, 27 May 2011, the last application day. If there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 27 May 2011 or if there are similar extraneous factors as are acceptable to the Stock Exchange, the last application day will be postponed to the next Business Day which does not fall within the above circumstances in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted an **electronic application instruction** through the **HK eIPO White Form** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **HK eIPO White Form** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **HK eIPO White Form** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

Additional information

For the purposes of allocating Hong Kong Public Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form** service to the HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated HK eIPO White Form Service Provider, the designated HK eIPO White Form Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated HK eIPO White Form Service Provider on the designated website at **www.hkeipo.hk**.

Please note that internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **HK eIPO White Form** service (**www.hkeipo.hk**), you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **HK eIPO White Form** service (**www.hkeipo.hk**), you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. For further information, please see the section headed "10. How many applications you may make for the Hong Kong Public Offer Shares" in this section below.

Warning

The application for Hong Kong Public Offer Shares through the HK eIPO White Form service (www.hkeipo.hk) is only a facility provided by the designated HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the HK eIPO White Form Service Provider and/or their respective directors, officers, employees, partners, agents and agents take no responsibility for such applications, and provide no assurance that applications through the HK eIPO White Form service (www.hkeipo.hk) will be submitted to our Company or that you will be allotted any Hong Kong Public Offer Shares.

8. TERMS AND CONDITIONS OF AN APPLICATION

Conditions of an application

To apply for the Hong Kong Public Offer Shares, the applicant shall be deemed to have accepted the following conditions:

- **applies** for the desired number of Hong Kong Public Offer Shares on the terms and conditions of this prospectus and the Application Form subject to the Memorandum of Association and the Bye-laws;
- **undertakes** and agrees to accept the Hong Kong Public Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that such application is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by way of giving **electronic application instructions** to HKSCC via CCASS or applying online through the HK eIPO White Form Service Provider under the **HK eIPO White Form** service (**www.hkeipo.hk**), to benefit the applicant or the person for whose benefit the applicant is applying;

- **undertakes** and **confirms** that the applicant or the person for whose benefit the applicant is applying has not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any International Placing Shares, nor otherwise participate in the International Placing;

- **understands** that these declarations and representations will be relied upon by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and/or the Underwriters in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in response to such application;

- **authorises** our Company to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Public Offer Shares to be allotted to the applicant;

- **authorises** our Company to despatch any e-Auto Refund payment instructions to the applicant's application payment bank account if the applicant has completed payment of the **HK eIPO White Form** application monies from a single bank account; or **authorises** our Company to issue and despatch any refund cheque to the address given on the **HK eIPO White Form** application if the applicant has completed payment of the application monies from multi-bank accounts;

- **requests** that any share certificates and/or refund cheque(s) be made payable to the applicant, and (subject to the terms and conditions set out in this prospectus) authorises our Company to send any share certificates and/or refund cheques by ordinary post and at the applicant's own risk to the address given on the Application Form (except where the applicant has applied for 1,000,000 or more Hong Kong Public Offer Shares and collects any share certificates and/or refund cheque(s) in person in accordance with the procedures prescribed in this prospectus, the Application Form and the designated **HK eIPO White Form** website at **www.hkeipo.hk**);

- **has read** the terms and conditions and application procedures set out in this prospectus, the Application Form and the **HK eIPO White Form** website (**www.hkeipo.hk**) and **agrees** to be bound by them and is aware of the conditions of and restrictions on the Hong Kong Public Offer described in this prospectus;

- **represents**, **warrants** and **undertakes** that (i) the applicant or any persons for whose benefit the applicant is applying is outside the United States when completing and submitting the HK eIPO White Form Application Form and is not a US person (as defined in Regulation S), or is a person described in paragraph (h)(3) of Rule 902 of Regulation S, and (ii) the allotment of or application for the Hong Kong Public Offer Shares to or by the applicant or the persons for whose benefit this application is made would not require our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and/or the Underwriters to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong;

- **agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the Laws of Hong Kong; and
- **agrees** that our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, other parties involved in the Global Offering and/or their respective directors, officers, employees, partners, agents and advisers, are entitled to rely on any warranty and representation made by the applicant or the person for whose benefit the applicant is applying.

Effect of completing and submitting an Application Form

By completing and submitting an Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee for and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- **instruct** and **authorise** our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and/or the Underwriters (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Public Offer Shares allotted to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Bye-laws and otherwise to give effect to the arrangements described in this prospectus and the HK eIPO White Form Application Form;
- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Public Offer Shares to be allocated to you, and as required by the Memorandum and Bye-laws;
- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- **agree** that our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any other parties involved in the Global Offering and/or any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement to this prospectus;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation and you may not revoke it other than as provided in this prospectus;

- (if the application is made for your own benefit) **warrant** that such application is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or applying online through the designated HK eIPO White Form Service Provider via the **HK eIPO White Form** service (**www.hkeipo.hk**);

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make this application;

- (if you are an agent or nominee for another person) **warrant** that reasonable enquiries have been made of that other person that such application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or applying online through the designated HK eIPO White Form Service Provider via the **HK eIPO White Form** service (**www.hkeipo.hk**), and that you are duly authorised to sign such Application Form or to give **electronic application instructions** to submit such application as that other person's agent or nominee;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for, taken up, indicated an interest in, received, or have been or will be placed or allocated (including conditionally and/or provisionally), and will not apply for, take up or indicate an interest in any International Placing Shares, nor otherwise participate in the International Placing;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong;

- **agree** to disclose to our Company, our share registrars, the receiving bankers, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

- **agree** with our Company and each Shareholder, Director and officer of our Company, and our Company acting for ourselves and for each Director and officer of our Company agrees with each Shareholder of our Company, to observe and comply with the Companies Ordinance, the Companies Act, the Memorandum of Association and the Bye-laws;

- **undertake** and **agree** to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under your application;

- **agree** with our Company and each Shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;

- **authorise** our Company to place your name(s) or HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our agents to send any share certificate(s), e-Auto refund payment instructions and/or any refund cheque(s) (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (expect that if you have applied for 1,000,000 Hong Kong Public Offer Shares or more and have indicated in your Application Form that you will collect your share certificate(s) and refund cheque(s) (where applicable) in person, you can collect your share certificate(s) and/or refund cheque(s) (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Thursday, 2 June 2011 from the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong);

- **understand** that these declarations and representations will be relied upon by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and/or the Underwriters in deciding whether or not to allocate any Hong Kong Public Offer Shares in response to your application and that you may be prosecuted for making a false declaration;

- **authorise** our Company to enter into a contract on your behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to Shareholders as stipulated in the Memorandum of Association and the Bye-laws;

- **represent**, **warrant** and **undertake** that the allotment of or application for the Hong Kong Public Offer Shares to you or by you or for whose benefit the application is made would not require our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and/or the Underwriters to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong;

- **represent**, **warrant** and **undertake** that you are not, and none of the other person(s) (if any) for whose benefit you are applying, are a US person (as defined in Regulation S);

- **represent**, **warrant** and **undertake** that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form and are not a US person (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus, the HK eIPO White Form Application Form and the **HK eIPO White Form** website (**www.hkeipo.hk**) and **agree** to be bound by them and are aware of the conditions of and restrictions on the Hong Kong Public Offer described in this prospectus;

- if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and (where applicable), the HK eIPO White Application Form and the **HK eIPO White Form** website (**www.hkeipo.hk**); and

- **agree** that the processing of your application, including the despatch of refund cheque(s) (if any), may be done by any of our Company's receiving bankers and is not restricted to the bank at which your Application Form was lodged.

Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any other parties involved in the Global Offering and/or their respective directors, officers, employees, partners, agents and advisers are entitled to rely on any warranty, representation or declaration made by you in such application. In the event of such application being made by joint applicants, all the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given and assumed by and imposed on the applicants jointly and severally. You may be prosecuted if you make a false declaration in your application.

Additional instructions for Yellow Application Forms

By completing and submitting the **YELLOW** Application Form you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee for and on behalf of each person for whom you act as agent or nominee:

- **agree** that the Hong Kong Public Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant or your CCASS Investor Participant stock account;

- **agree** that each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such Hong Kong Public Offer Shares allocated to you to be issued in the name of HKSCC Nominees or not to accept such allocated Hong Kong Public Offer Shares for deposit into CCASS; (2) to cause such allocated Hong Kong Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs (or, if you are a joint applicant, to the first-named applicant); and (3) to cause such allocated Hong Kong Public Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the certificate(s) for such allotted Hong Kong Public Offer Shares at your own risk to the address on this Application Form by ordinary post or to make available the same for your collection;

- **agree** that each of HKSCC and HKSCC Nominees may adjust the number of allocated Hong Kong Public Offer Shares issued in the name of HKSCC Nominees;
- **agree** that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in the Prospectus and your Application Form; and
- **agree** that neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

9. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

(b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at **https://ip.ccass.com** (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited Customer Service Centre
2/F Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

(c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for Hong Kong Public Offer Shares on your behalf.

(d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant, to our Company and the Hong Kong Share Registrar.

(e) You may give or cause your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the multiples set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

(f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

(i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; and

(ii) HKSCC Nominees shall do the following things on behalf of each of such persons:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertake and agree to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- undertake and confirm that that person has not indicated an interest for, applied for or taken up any International Placing Shares;

- (if the **electronic application instructions** are given for that person's own benefit) declare that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declare that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

- understand that the above declaration will be relied upon by our Company and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorise our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;

- confirm that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirm that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations save as set out in any supplement to this prospectus;

- agree that our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any other parties involved in the Global Offering and/or any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus and any supplement thereto;

- agree to disclose that person's personal data to our Company, our share registrars, receiving bankers, the Sole Sponsor, the Joint Global Coordinators, the Underwriters and/or any of their respective advisers and agents and any information which they may require about that person;

- agree (without prejudice to any other rights which that person may have) that once the application made by HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

- agree that that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable on or before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agree that once the application made by HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by our Company;

- agree with our Company (for our Company itself and for the benefit of each of its Shareholders) that Shares in our Company are freely transferable by the holders thereof;

- agree to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares; and

- agree that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

(g) By giving **electronic application instructions** to HKSCC or instructing your CCASS Clearing Participant or CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the Offer Price, and the related brokerage, the SFC transaction levy, and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application, refund of the application monies (in each case including brokerage, the SFC transaction levy, and the Stock Exchange trading fee) by crediting your designated bank account;

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

(h) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

(i) For the purpose of allocating Hong Kong Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

(j) The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Share Registrar, our receiving bankers, the Sole Sponsor, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

(k) For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

Application for Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any other parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their electronic application instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or the CCASS Internet System to submit their electronic application instructions, they should either:

(a) submit a WHITE or YELLOW Application Form (as appropriate); or

(b) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Friday, 27 May 2011 or such later time as described in this section under the section headed "12. Effect of bad weather on the opening of the Application Lists".

10. HOW MANY APPLICATIONS YOU MAY MAKE FOR THE HONG KONG PUBLIC OFFER SHARES

You may make more than one application for the Hong Kong Public Offer Shares if you are a nominee, in which case you may make an application by using a **WHITE** or **YELLOW** Application Form or by way of giving **Electronic Application Instructions** to HKSCC via CCASS if you are a CCASS Participant, and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the relevant Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being for your own benefit.

Otherwise, multiple applications are not allowed.

If you apply by means of the **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated HK eIPO White Form Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **HK eIPO White Form** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service by giving **electronic application instructions** through the designated website at **www.hkeipo.hk** and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **HK eIPO White Form** service and one or more applications by any other means, all of your applications are liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or by giving **Electronic Application Instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service, and that you are duly authorised to sign the Application Form or give **electronic application instructions** as that other person's agent.

Multiple applications or suspected multiple applications are liable to be rejected. All of your applications are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by way of giving **Electronic Application Instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service;

- apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form or one **WHITE** or **YELLOW** Application Form and by way of giving **Electronic Application Instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service;

- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by way of giving **Electronic Application Instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service for more than 50% of the Hong Kong Public Offer Shares initially available for subscription under the Hong Kong Public Offer; or

- have applied for or taken up, or indicated an interest for or have been or will be placed Offer Shares under the International Placing and make application on **WHITE** or **YELLOW** Application Form or by way of giving **Electronic Application Instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service.

All of your applications are also liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **Electronic Application Instructions**) or you have applied for or taken up or otherwise indicated an interest for Offer Shares under International Placing.

If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and

- you exercise "statutory control" over that company,

then that application will be treated as being for your benefit.

"An unlisted company" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of that company; and/or

- control more than half the voting power of that company; and/or

- hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

Offer Price

The Offer Price is HK$1.43 per Share. You must also pay the brokerage of 1%, the transaction levy of 0.003% imposed by the SFC and the Stock Exchange trading fee of 0.005%. This means that for every 2,000 Hong Kong Public Offer Shares, you will need to pay HK$2,888.83. The Application Forms have tables showing the exact amount payable for certain multiples of the Hong Kong Public Offer Shares up to 6,250,000 Hong Kong Public Offer Shares.

You must pay the Offer Price, the brokerage, the Stock Exchange trading fee and the transaction levy in full when you apply for the Hong Kong Public Offer Shares. Your payment must be made by one cheque or one banker's cashier order and must comply with the terms of the Application Forms.

If your application is successful, the brokerage will be paid to participants of the Stock Exchange, the transaction levy will be paid to the SFC and the trading fee will be paid to the Stock Exchange.

Particulars of the procedures for refund are set forth in this section under the section headed "17. Despatch/collection of share certificate, e-Auto Refund payment instructions and refund cheques".

11. TIME FOR APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

(a) WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon (Hong Kong time) on Friday, 27 May 2011, or, if the Application Lists are not open on that day, then by 12:00 noon (Hong Kong time) on the day the Application Lists are open.

Your completed Application Form, with payment attached, should be deposited in the special collection boxes provided at any of sub-branches and/or branches of The Bank of East Asia, Limited and Wing Lung Bank Limited listed in this section under the section headed "4. Where to collect the prospectuses and the Application Forms" above at the following times:

Tuesday, 24 May 2011 — 9:00 a.m. to 5:00 p.m.
Wednesday, 25 May 2011 — 9:00 a.m. to 5:00 p.m.
Thursday, 26 May 2011 — 9:00 a.m. to 5:00 p.m.
Friday, 27 May 2011 — 9:00 a.m. to 12:00 noon

The Application Lists will open from 11:45 a.m. (Hong Kong time) and will close at 12:00 noon (Hong Kong time) on Friday, 27 May 2011.

(b) HK eIPO White Form

You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** from 9:00 a.m. on Tuesday, 24 May 2011 until 11:30 a.m. on Friday, 27 May 2011 (24 hours daily, except on the last application day) or such later time as described in this section under the section headed "7. How to Apply through the HK eIPO White Form Service — Effect of bad weather conditions on the last application day". The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 27 May 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in this section under the section headed "7. How to apply through the HK eIPO White Form service — Effect of bad weather conditions on the last application day". You will not be permitted to submit your application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(c) Electronic Application Instructions

CCASS Clearing/Custodian Participants should input **Electronic Application Instructions** at the following times on the following dates:

Tuesday, 24 May 2011	—	9:00 a.m. to 8:30 p.m.(1)
Wednesday, 25 May 2011	—	8:00 a.m. to 8:30 p.m.(1)
Thursday, 26 May 2011	—	8:00 a.m. to 8:30 p.m.(1)
Friday, 27 May 2011	—	8:00 a.m.(1) to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **Electronic Application Instructions** from 9:00 a.m. on Tuesday, 24 May 2011 until 12:00 noon on Friday, 27 May 2011 (24 hours daily, except the last application day).

The latest time for inputting your **Electronic Application Instructions** (if you are a CCASS Participant) is 12:00 noon on Friday, 27 May 2011 or, if the Application Lists are not open on that day, by the time and date stated under "Effects of bad weather on the opening of the Application Lists" below.

(d) Application Lists

The Application Lists will be opened at 11:45 a.m. and closed at 12:00 noon on Friday, 27 May 2011.

No proceedings will be taken on applications for our Shares and no allotment of any such Shares will be made until after the closing of the Application Lists.

12. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal,

in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on Friday, 27 May 2011 in Hong Kong. Instead, the Application Lists will open between 11:45 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time) on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. (Hong Kong time) and 12:00 noon (Hong Kong time).

If the Application Lists do not open and close on Friday, 27 May 2011, the dates mentioned in the section headed "Expected timetable" in this prospectus and the related Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreements) may be affected. A press announcement will be made in such event in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

13. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Public Offer Shares are set forth in the related Application Forms, and you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

If your application is revoked

By depositing an Application Form or submitting **Electronic Application Instructions** to HKSCC or the designated HK eIPO White Form Service Provider , you agree that your application or the application made by HKSCC Nominees or the HK eIPO White Form Service Provider on your behalf cannot be revoked on or before the expiration of the 5th day after Friday, 27 May 2011 or such later date as the Application Lists may close as described in this section headed "12. Effect of bad weather on the opening of the Application Lists" above. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **Electronic Application Instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the HK eIPO White Form Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person until after the expiration of the 5th day after the time of opening of the Application Lists except by means of one of the procedures referred to in this prospectus.

You may only revoke your application or the application made on your behalf by HKSCC Nominees or the HK eIPO White Form Service Provider on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicants have not been so notified, or if applicants have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made on your behalf by HKSCC Nominees or the HK eIPO White Form Service Provider has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively, at our full discretion or the discretion of our agents. Our Company and our agents have full discretion to reject or accept any application, or to accept only part of an application, and do not have to give any reason for any rejection or acceptance.

Full discretion of our Company, the Joint Global Coordinators or the designated HK eIPO White Form Service Provider (where applicable) or our or their respective agents to reject or accept your application:

We, the Joint Global Coordinators (as agents of our Company) or the designated HK eIPO White Form Service Provider (where applicable) or our or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

If your application is rejected

Your application will be rejected if:

- it is a multiple application or a suspected multiple application; or

- you or the person for whose benefit you apply have taken up or, indicated an interest for, or applied for or received, or have been or will be placed or allocated (including conditionally and/or provisionally) International Placing Shares in the International Placing. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider via the **HK eIPO White Form** service, you agree not to apply for or indicate an interest for International Placing Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offer from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offer;

- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at **www.hkeipo.hk**;

- you apply for more than 50% of the Hong Kong Public Offer Shares initially being offered under the Hong Kong Public Offer;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed correctly in accordance with the instructions printed thereon; or
- your payment is not made correctly; or
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation; or
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares; or
- we believe that by accepting your application, we would violate the applicable laws, rules or regulations of the jurisdiction in which your application is, or is suspected to have been, completed and/or signed or of any other jurisdiction.

You should also note that you may apply for Hong Kong Public Offer Shares under the Hong Kong Public Offer or indicate an interest for International Placing Shares under the International Placing, but may not do both.

If your application is not accepted

Your application (including the part of an application made by HKSCC Nominees acting upon **Electronic Application Instructions**) will not be accepted if either:

- any of the Underwriting Agreements does not become unconditional; or
- any of the Underwriting Agreements is terminated in accordance with its respective terms and conditions.

If the allotment of the Hong Kong Public Offer Shares is void

The allotment of the Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **Electronic Application Instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing of the Applications Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies us of that longer period within three weeks of the closing of the Application Lists.

14. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The Offer Price is HK$1.43 per Hong Kong Public Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 2,000 Hong Kong Public Offer Shares, you will pay HK$2,888.83. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Public Offer Shares that may be applied for.

You must pay the offer price and related brokerage, SFC transaction levy and the Stock Exchange trading fee in full when you apply for the Hong Kong Public Offer Shares. You must pay the amount payable upon application for the Hong Kong Public Offer Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form or this prospectus.

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange. The SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (and in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

15. ANNOUNCEMENT OF RESULTS OF THE HONG KONG PUBLIC OFFER

Our Company expects to publish the announcement on the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Placing and the basis of allotment of the Hong Kong Public Offer Shares and the Offer Price in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of our Company at **www.zhengye-cn.com** and on the website of the Stock Exchange at **www.hkexnews.hk** on Thursday, 2 June 2011. Results of allocations in the Hong Kong Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** Application Forms, or **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form** service (**www.hkeipo.hk**) will be made available at the times and dates and in the manner specified below:

- results of allocations in the Hong Kong Public Offer can be found in our announcement to be posted on our Company's website at **www.zhengye-cn.com** on Thursday, 2 June 2011;

- results of allocations in the Hong Kong Public Offer will be available from the Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 2 June 2011 to Wednesday, 8 June 2011 (excluding Saturday, Sunday and public holiday);

- results of allocations in the Hong Kong Public Offer will be available from our designated results of allocations website at **www.tricor.com.hk/ipo/result** on a 24-hour basis from 8:00 a.m. on Thursday, 2 June 2011 to 12:00 midnight on Friday, 10 June 2011. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;

- results of allocations in the Hong Kong Public Offer can be found on the website of the Stock Exchange at **www.hkexnews.hk** on Thursday, 2 June 2011;

- special allocation results booklets setting out the results of allocations will be available for inspection during the opening hours of individual branches from Thursday, 2 June 2011 to Tuesday, 7 June 2011 at all the receiving bank branches at the addresses set out in this section under the section headed "4. Where to collect the Prospectuses and the Application Forms".

16. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Listing Committee grants the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on the Main Board and our Company complies with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealing in our Shares on the Main Board or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbroker(s) or other professional adviser(s) for details of those settlement arrangements as such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS.

17. DESPATCH/COLLECTION OF SHARE CERTIFICATES, E-AUTO REFUND PAYMENT INSTRUCTIONS AND REFUND CHEQUES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. All such interest accrued prior to the date of despatch of refund cheques will be retained for our benefit. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application.

Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

(a) (i) share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose share certificates will be deposited into CCASS as described below); and/or

(b) e-Auto Refund payment instructions or refund cheque(s), for applicants on **WHITE** and **YELLOW** Application Forms or to the designated HK eIPO White Form Service Provider, crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to such refund/surplus monies, but without interest.

Any certificate relating to the Offer Shares issued by the Company or deposited into CCASS prior to 8:00 a.m. on the Listing Date will only become valid certificate of title if the Hong Kong Public Offer has become unconditional in all aspects and the Hong Kong Underwriting Agreement has not been terminated in accordance with its terms on or before 8:00 a.m. on the Listing Date.

Your application money, or an appropriate portion thereof, together with the related brokerage fee, Stock Exchange trading fee and the transaction levy, will be refunded, without interest if:

- your application is rejected, not accepted or only accepted in part;
- the conditions of the Hong Kong Share Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering" in this prospectus;
- any application is revoked or any allocation pursuant thereto has become void; or
- any of the reasons set forth in this section under the section headed "13. Circumstances in which you will not be allotted the Hong Kong Public Offer Shares".

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** or **YELLOW** Application Forms and share certificates for successful applicants under **WHITE** Application Form and the **HK eIPO White Form** service are expected to be posted on or before Thursday, 2 June 2011. Our Company reserves the right to retain any share certificates and any surplus application monies pending clearance of cheque(s).

In a contingency situation involving a substantial over-application, at the discretion of our Company and the Joint Global Coordinators, cheques for applications made on Application Forms for certain small denominations of Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

It is intended that special efforts will be made to avoid any undue delay in refunding application money where appropriate.

If you apply using a WHITE Application Form:

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong Share Registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 2 June 2011. If you are an individual and you opt for personal collection, you must not authorise any other person to make the collection on your behalf. You must show your identification documents (which must be acceptable to Tricor Investor Services Limited) to collect your Share certificate(s). If you are a corporate applicant, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited. If you do not collect your refund cheque(s) and share certificate(s) (where applicable) within the time period specified for collection, they will be despatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more and have not indicated on your Application Forms that you will collect your share certificate(s) and/or refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering — Conditions of the Global Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in respect of the application monies or the appropriate parties thereof, together with the related brokerage fee, Stock Exchange trading fee and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, 2 June 2011 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form or give an electronic application instruction to HKSCC via CCASS

If you apply for the Hong Kong Public Offer Shares using a **YELLOW** Application Form or by giving **Electronic Application Instructions** to HKSCC, and your application is wholly or partially successful, your share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant's stock account or the stock account of your designated CCASS Participant as instructed by you on Thursday, 2 June 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

We expect to publish the application results of CCASS Investor Participants using **YELLOW** Application Form and the application results of CCASS Participants applying by giving **Electronic Application Instructions** to HKSCC (and where the CCASS Participants is a broker or custodian, we shall include information relating to the beneficial owner if supplied), the Hong Kong identity card numbers, passport numbers or other identification code (Hong Kong business registration number for corporations) on Thursday, 2 June 2011. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 June 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Applicants applying as a CCASS Investor Participant using **YELLOW** Application Form or applying by giving **Electronic Application Instructions** to HKSCC can also check the result of application via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 2 June 2011.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of the Hong Kong Public Offer Shares allotted to you (and the amount of refund money payable to you if you have instructed a CCASS Clearing/Custodian Participant to give electronic application instructions on your behalf) with that CCASS Participant.

If you are applying as a CCASS Investor Participant, you can check your new account balance and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System immediately after the credit of the Hong Kong Public Offer Shares to your stock account. HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account (and the amount of refund money (if any) credited to your designated bank account if you are applying by giving electronic application instructions to HKSCC).

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications, in each case including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your CCASS Clearing Participant or CCASS Custodian Participant on Thursday, 2 June 2011. No interest will be paid thereon.

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Forms that you will collect your refund cheque(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed "Structure and conditions of the Global Offering — Conditions of the Global Offering" in this prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund cheque(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, 2 June 2011 by ordinary post and at your own risk.

If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **HK eIPO White Form** service by submitting an electronic application to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** and your application is wholly or partially successful, you may collect your share certificate(s) and/or refund cheque(s) (where applicable) in person from Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 2 June 2011, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider through the designated website at **www.hkeipo.hk** on Thursday, 2 June 2011 by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Auto Refund payment instructions (if any) will be despatched to your application payment bank account on Thursday, 2 June 2011; if you used multi-bank accounts to pay the application monies, your refund cheque (if any) will be despatched to you to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on Thursday, 2 June 2011 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated HK eIPO White Form Service Provider set out in the section headed "How to Apply for Hong Kong Public Offer Shares — 7. How to Apply through the HK eIPO White Form Service — Additional Information" in this prospectus.

18. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 3 June 2011. Shares will be traded on the Stock Exchange in board lots of 2,000 each. The Stock Exchange stock code for the Shares is 3363.

19. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests. All necessary arrangements have been made for the Shares to be admitted into CCASS.

20. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (the "Ordinance") came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Shares of the policies and practices of the Company and its Hong Kong Share Registrar (the "Hong Kong Share Registrar") in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the registrars to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Public Offer Shares which you have successfully applied for and/or the dispatch of Share certificate(s) and/or e-Auto Refund payment instruction, and/or the dispatch of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable, and verification of compliance with the terms and application procedures set out in this form and the prospectus;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of holders of securities including, where applicable, in the name of HKSCC Nominees Limited;

- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues, etc;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and any other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by the Company and the Hong Kong Share Registrar relating to the holders of securities will be kept confidential but the Company and its Hong Kong Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the holders of securities to, from or with any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisors, receiving bankers and the Company's principal share registrar and Hong Kong Share Registrar;
- HKSCC and HKSCC Nominees Limited, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the registrars in connection with the operation of their respective businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

(d) Access and correction of personal data

The Ordinance provides the holders of securities with rights to ascertain whether the Company or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to the Company for the attention of the Company secretary or (as the case may be) the Hong Kong Share Registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance.)

Deloitte.
德勤

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24 May 2011

The Directors
Zhengye International Holdings Company Limited
CMB International Capital Limited

Dear Sirs,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

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

Combined Statements of Financial Position

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

Combined Statements of Changes in Equity

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

Notes:

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

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

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

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

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

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

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

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

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

Combined Statements of Cash Flows

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

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

Notes to the Financial Information

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

(a) Reorganisation

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

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

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

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

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

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

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

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

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

(b) Going concern

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of combination

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

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

Business combination under common control

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

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

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

Revenue recognition

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

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

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

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

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

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Sales and lease back under finance lease

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

Impairment losses

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

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

Foreign currencies

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

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

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

Financial liabilities and equity instruments

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

Borrowing costs

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

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

Inventories

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

Intangible assets

Research and development expenditure

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

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

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

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

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

Taxation

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

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

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

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

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

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

Government grants

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

Retirement benefit costs

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Useful lives of property, plant and equipment

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

Estimated impairment of trade receivables

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

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

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

b. Financial risk management objectives and policies

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

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

Market risk

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

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

Interest rate risk management

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

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

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

Interest rate sensitivity

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

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

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

Foreign currency risk management

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

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

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

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

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

Foreign currency sensitivity analysis

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

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

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

Credit risk

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

c. Fair value

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

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

7. REVENUE

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

8. SEGMENT INFORMATION

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

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

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

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

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

(a) Segment results

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

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

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

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

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

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

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

(b) Geographic information

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

(c) Information about major customers

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

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

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

(d) Segment assets and liabilities

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

9. OTHER INCOME

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

10. OTHER GAINS AND LOSSES

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

11. FINANCE COSTS

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

12. PROFIT BEFORE TAX

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

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

13. INCOME TAX EXPENSE

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

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

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

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for the PRC subsidiary from 1 January 2008. The following preferential tax rates should still be effective after adoption of the unified tax rate.

According to Article Eight of *The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* which became effective from 9 April 1991 and expired since 1 January 2008, Foreign Investment and Foreign Enterprises for production were approved to enjoy 2-year income tax exemption commencing from their first profit-making year of operations, and thereafter to a 50% relief for the following three years ("Certain Conditions 1"). This policy was still in effect when the income tax rate unified in 1 January 2008 if an enterprise was in the process of this transition stage at that point.

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

According to Article Seven of *The Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises*, the income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24% ("Certain Conditions 3").

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

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

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

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

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

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

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

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

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

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

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

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

14. DIRECTORS' EMOLUMENTS

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

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

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

15. EMPLOYEES' EMOLUMENTS

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

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

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

16. DIVIDENDS

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

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

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

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

17. EARNINGS PER SHARE

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

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

18. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

19. PREPAID LEASE PAYMENTS

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

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

20. INVENTORIES

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

Details of inventories pledged are set out in note 30.

21. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts

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

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

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

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

22. AMOUNTS DUE FROM DIRECTORS/RELATED PARTIES

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

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

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

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

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

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

24. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

25. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

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

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

26. AMOUNTS DUE TO DIRECTORS/RELATED PARTIES

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

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

27. BANK AND OTHER BORROWINGS

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

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

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

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

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

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

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

28. DEFERRED TAXATION

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

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

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

29. SHARE/PAID-IN CAPITAL

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

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

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

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

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

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

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

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

30. PLEDGE OF ASSETS

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

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

31. OPERATING LEASES

The Group as lessee

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

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

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

32. CAPITAL COMMITMENTS

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

33. RETIREMENT BENEFITS SCHEMES

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

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

34. RELATED PARTIES TRANSACTIONS

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

(a) Related parties transactions during the Relevant Periods

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

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

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

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

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

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

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

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

B. DIRECTORS' REMUNERATION

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

C. SUBSEQUENT EVENTS

The following transactions took place subsequent to 31 December 2010:

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

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

D. SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by Deloitte Touche Tohmatsu as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the combined net tangible assets of the Group as at 31 December 2010 as if the Global Offering had taken place on 31 December 2010.

The statement of unaudited pro forma adjusted combined net tangible assets has been prepared for illustration purposes only because of its hypothetical nature, it may not give a true picture of the financial position of our Group as at 31 December 2010 or at any future dates following the Global Offering. It is prepared based on the combined net tangible assets of the Group as at 31 December 2010 as set out in the Accountants' Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of our Group as at 31 December 2010	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HKD*
Based on the Offer Price of HK$1.43 per Offer Share	289,786	128,366	418,152	0.84	1.00

Notes:

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

(2) As at 31 March 2011, CB Richard Ellis Limited, an independent property valuer, performed an independent valuation for our Group's leasehold land and buildings based on market value. CB Richard Ellis Limited reported valuation of the land and buildings at an amount of RMB273,550,000 as at 31 March 2011 and the revaluation surplus was RMB143,922,000. Our Group will not account for these revaluation surpluses in its future financial statements according to its accounting policies. If they were accounted for, the annual amortisation and depreciation would have been increased by approximately RMB3,866,000.

(3) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.43 per Offer Share, after deduction of the underwriting fees and other related expenses payable by the Company which has not been reflected in the net tangible assets of our Group as at 31 December 2010 and take no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 500,000,000 Shares (including the Shares in issue as at 31 December 2010, Shares under the Capitalisation Issue and the Global Offering) are in issue and that the Over-allotment Option and the options that may be granted under the Share Option Scheme are not exercised.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, for the purpose of incorporation in this prospectus.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF ZHENGYE INTERNATIONAL HOLDINGS COMPANY LIMITED

We report on the unaudited pro forma financial information of Zhengye International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed placing and public offer of an aggregate of 125,000,000 shares of HK$0.10 each in the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated 24 May 2011 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in part (A) of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 May 2011

The following is the text of a letter with the summary of values and valuation certificate received from CB Richard Ellis Limited, an independent property valuer, prepared for the purpose of incorporation in this prospectus, in connection with their valuation as at 31 March 2011 of all the property interests of our Group.

CBRE
CB RICHARD ELLIS
世 邦 魏 理 仕

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地產代理(公司)牌照號碼
Estate Agent's Licence No: C-004065

24 May 2011

The Board of Directors
Zhengye International Holdings Company Limited
Office Suite 1712,
17th Floor,
Shui On Centre,
6–8 Harbour Road,
Wanchai,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Zhengye International Holdings Company Limited (the "Company") and its subsidiaries (hereinafter together know as the "Group") in the People's Republic of China ("the PRC"). We confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of such property interests as at 31 March 2011 (the "date of valuation").

Our valuation is our opinion of Market Value which is defined to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Unless otherwise stated, our valuation is prepared in accordance with the "First Edition of The HKIS Valuation Standards on Properties" published by The Hong Kong Institute of Surveyors ("HKIS"). We have also complied with all the requirements contained in Paragraph 46 of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Our valuation has been made on the assumption that the owner sells the properties on the open market without the benefit or the burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

Under otherwise stated, all the property interests are valued by the comparison method on the assumption that each property can be sold with the benefit of vacant possession. Comparison is based on prices realised on actual transactions or asking price of comparable properties. Comparable properties with similar sizes, character and locations are analyzed, and carefully weighted against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

In valuing the property interests in Group I, which are held by the Group for occupation in the PRC, we have valued each of these property interests by the direct comparison approach assuming sale of each of these property interests in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

For the property interests in Group II, which is rented by the Group for occupation in the PRC and Hong Kong, we considered it has no commercial value due mainly to the prohibition against assignment or sub-letting and/or due to the lack of substantial profit rent.

In the course of our valuation for the property interests in the PRC, we have relied on the legal opinion provided by the Group's PRC legal advisor, Jingtian & Gongcheng (the "PRC Legal Opinion"). We have been provided with extracts from title documents relating to such property interests. We have not, however, searched the original documents to verify ownership or existence of any amendment which does not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information given by the Group, in particular, but not limited to, planning approvals, statutory notices, easements, tenancies and floor areas. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. However, we have not carried out any structural survey nor any tests were made on the building services. Therefore, we are not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out investigations on the site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Unless otherwise stated, all monetary amounts are stated in Renminbi ("RMB").

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Leo MY Lo
MHKIS MRICS
Director
Valuation & Advisory Services

Note: Mr. Leo MY Lo is a member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors. He has over 7 years' valuation experience in the PRC, Hong Kong and the Asia Pacific Region.

SUMMARY OF VALUES

	Property Interests	Capital Value in existing state as at 31 March 2011 *(RMB)*	Interests attributable to the Group	Capital Value attributable to the Group as at 31 March 2011 *(RMB)*
Group I — Property interests held by the Group for occupation in the PRC				
1.	An industrial complex located in Xindi Village, Huangpu Town, Zhongshan City, Guangdong Province, the PRC	202,600,000	100%	202,600,000
2.	A parcel of land located in Tianchengwei, North Island Second Economic Cooperative, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	7,080,000	100%	7,080,000
3.	An industrial building located in Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	3,270,000	100%	3,270,000
4.	An industrial complex located at Fu Shan Industrial Zone, Zhugang Avenue, Doumen District, Zhuhai City, Guangdong Province, the PRC	60,600,000	100%	60,600,000
			Group I Sub-total:	**273,550,000**

Property Interests	Capital Value in existing state as at 31 March 2011 *(RMB)*	Interests attributable to the Group	Capital Value attributable to the Group as at 31 March 2011 *(RMB)*
Group II — Property interests rented by the Group for occupation in the PRC and Hong Kong			
5. Two industrial complexes located in Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC			No commercial value
6. Three workshops, located in Xindi Village, Huangpu Town, Zhongshan City, Guangdong Province, the PRC			No commercial value
7. A warehouse, located in Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC			No commercial value
8. An industrial complex, located in No. 7 Economic Cooperation, Bai Li Village, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC			No commercial value
9. A unit located in Zhengzhou Optic-mechanical Industrial Base, No. 55, Yulan Street, Gao Xin District, Zhengzhou City, Henan Province, the PRC			No commercial value
10. Office Suite 1712, 17/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong			No commercial value
		Group II Sub-total:	No commercial value
		GRAND TOTAL:	**273,550,000**

VALUATION CERTIFICATE

Group I — Property interests held by the Group for occupation in the PRC

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
1. An industrial complex located in Xindi Village, Huangpu Town, Zhongshan City, Guangdong Province, the PRC	The property comprises three parcels of land and various buildings and structures erected thereon. The buildings and structures were completed between 1950s and 2000s. The land of the property occupied a site area of approximately 334,292.70 sq.m.. The buildings comprise 35 workshops, warehouses, offices with a total gross floor area of approximately 55,224.70 sq.m.. As advised by the Group, there are various structures with a total gross floor area of approximately 33,887.70 sq.m.. The property is held under various State-owned Land Use Rights Certificates with various terms expiring on 28 March 2054, 25 March 2054 and 11 October 2053 for industrial use.	The property is currently occupied by the Group as workshops, warehouses, offices.	202,600,000 (100% interests attributable to the Group: RMB202,600,000)

Notes:

a) Pursuant to the State-owned Land Use Rights Certificates issued by People's Government of Zhongshan Municipal, the land use rights of the land with a site area of approximately 334,292.70 sq.m. has been granted to the Group with a land use terms of 50 years for industrial use.

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area *(sq.m.)*	Use/Expire Date
Zhong Fu Guo Yong (2010) No.010630	6 August 2010	38,346.6	11 October 2053
Zhong Fu Guo Yong (2010) No.011116	28 December 2010	259,533.1	28 March 2054
Zhong Fu Guo Yong(2010) No.011129	28 December 2010	36,413	25 March 2054
	Total:	344,292.70	

b) Pursuant to the following Real Estate Title Certificates issued by People's Government of Zhongshan Municipal, the building ownership of the property with a total gross floor area of approximately 47,046.52 sq. m. has been grant to the Group.

Real Estate Title Certificate Number	Date of Issuance	Gross Floor Area (sq.m.)	Use/Expire Date
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017492	26 September 2010	1,353.42	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017507	26 September 2010	3,663.77	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017552	26 September 2010	4,221.64	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017518	26 September 2010	2,837.9	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017523	26 September 2010	1,017.41	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017515	26 September 2010	4,354.64	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017531	26 September 2010	1,734.89	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017559	26 September 2010	2,552.5	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110017548	26 September 2010	1,955.74	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110017545	26 September 2010	2,686.98	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110017521	26 September 2010	8,379.95	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110017540	26 September 2010	597.27	Industrial: 28 March 2054
Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110017549	26 September 2010	656.61	Industrial: 28 March 2054
Yue Fang Di Zheng Zi No. C5783546	19 October 2007	4,567.64	Industrial: 11 October 2053
Yue Fang Di Quan Zheng Zhong Fu Zi No.0110009371	6 August 2010	6,466.16	Industrial: 11 October 2053
	Total:	47,046.52	

c) As advised by the Group, there are 20 buildings with a total gross floor area of approximately 8,178.18 sq.m. and 25 structures with a total gross floor area of approximately 33,887.70 sq.m. have not obtained relevant construction approvals or building ownership certificates on 31 March 2011, which will be demolished by the Group.

d) The building of a total gross floor area of approximately 50 sq.m. erected on the site has been leased to Zhong Tang Recycling, with a lease term from 1 November 2010 to 31 October 2013, the monthly rent is RMB800.

e) A car parking space in a warehouse erected on the site has been leased to Guangdong Development Bank Zhongshan Branch, with a lease term from 3 November 2010 to 2 November 2012, at a yearly rent of RMB10.

f) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisor, which contains, inter alia, the following information:

i) the Group has obtained the State-owned Land Use Rights Certificates, is entitled to legally own the land use rights to the site.

ii) Pursuant to the instruction provided by the Group and verified by the Group's PRC legal advisor, the site has not been mortgaged, seizured nor subject to any other dispute(save and except those parts which has been mortgaged).

iii) For the portion of the property which has been mortgaged, the Group must obtain the mortgagee's consent before transfer or otherwise dispose.

iv) In accordance to the PRC laws and regulations, for the buildings on the site which have not obtained the Construction Works Planning Permit, might be punished by the government of paying a fine of 5% to 10% of the construction cost; for the buildings on the site which have not obtained the Construction Works Commencement Permit, might be punished by the demolition within limited time, and associated penalties by the government of paying a fine of 1% to 2% of the construction cost; for the buildings without Construction Works Completion Report, might be punished by the government of paying a fine of 2% to 4% of the construction cost.

v) The following portions of the site are subject to mortgages and the transfer, lease and mortgage of such portions shall be subject to the prior consent from the mortgagee:

Corresponding State-owned Land Use Rights Certificate or Building Ownership Certificate	Encumbrance Number	Date Instruments	Creditor
Yue Fang Di Zheng Zi No.5783546, Yue Fang Quan Zheng Zhong Fu Zi No.0110009371, Zhong Fu Guo Yong (2010) No.010630	44100620110002049	18 February 2011	Agriculture Bank of China Huangpu Branch with a loan of RMB27,280,000
Zhong Fu Guo Yong (2010) 011129	(2008) Zhong Yin Zui Di Zi No. 2105	19 August 2008	Guangdong Development Bank Zhongshan Branch with a loan of RMB17,478,240

Corresponding State-owned Land Use Rights Certificate or Building Ownership Certificate	Encumbrance Number	Date Instruments	Creditor
Zhong Fu Guo Yong (2010) No.011116, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017492, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017507, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017552, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017518, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017523, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017515, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017531, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017559, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017548, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017545, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017521, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017540, Yue Fang Di Quan Zheng Zhong Fu Zi No.0110017549	Xin Yin Yue Jie Di Zi (Zhongshan) No.201008170043	25 June 2010	Industrial Bank Zhongshan Branch with a loan of RMB198,844,500

vi) The Group has obtained the ownership of the property and has the rights to lease the property. The tenancy agreements are legal, valid and enforceable.

vii) The tenancy agreements have not been registered with the relevant real estate authorities, however, the validity of such non-registered tenancy agreement will not be affected.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
2.	A parcel of land located in Tianchengwei, North Island Second Economic Cooperative, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	The land of the property occupied a site area of approximately 12,754.22 sq.m.. As advised by the Group, the property will be developed into an Research and Development Center. The property is held under various State-owned Land Use Rights Certificates with a term expiring on 23 December 2054 for industrial use.	The property is currently vacant	7,080,000 (100% interests attributable to the Group: RMB7,080,000)

Notes:

a) Pursuant to the State-owned Land Use Rights Certificate issued People's Government of Zhongshan Municipal, the land use rights of the land with a site area of approximately 12,754.22 sq.m. has been granted to the Group with a land use term of 50 years for industrial use.

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area *(sq.m.)*	Use/Expire Date
Zhong Fu Guo Yong (2004) No. 090570	28 December 2004	12,754.22	Industrial: 23 December 2054
	Total:	12,754.22	

b) We have been provided with a legal opinion on the property prepared by the Group's legal advisor, which contains, inter alia, the following information:

i) the Group has obtained the State-owned Land Use Rights Certificates, is entitled to legally own the land use rights to the site.

ii) Pursuant to the instruction provided by the Group and verified by the lawyer, the site has not been mortgaged, seizured nor subject to any other dispute(save and except those parts which has been mortgaged).

iii) For the portion of the property which has been mortgaged, the Group must obtain the mortgagee's consent before transfer or otherwise dispose.

iv) The following portions of the site are subject to mortgages and the transfer, lease and mortgage of such portions shall be subject to the prior consent from the mortgagee:

Corresponding State-owned Land Use Rights Certificate or Building Ownership Certificate	Encumbrance Number	Date of instruments	Creditor
Zhong Fu Guo Yong (2004) No. 090570	GDY476440120090541	12 November 2009	Bank of China Zhongshan Branch with a loan of RMB7,269,900

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
3.	An industrial building located in Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	As advised by the Group. the property comprises a warehouse with a total gross floor area of approximately 2,082.92 sq.m. erected on the site with a area of approximately 3,241.1 sq.m.. The building was completed in 1990s. The property is held under a State-owned Land Use Rights Certificate with a term expiring on 16 February 2043 for industrial use.	The property is currently occupied by the Group as warehouse.	3,270,000 (100% interests attributable to the Group: RMB3,270,000)

Notes:

a) Pursuant to the State-owned Land Use Rights Certificates issued by People's Government of Zhongshan Municipal, the land use rights of the land with a site area of approximately 3,241.1 sq.m. has been granted to the Group with a land use term of 50 years for industrial use.

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area *(sq.m.)*	Use/Expire Date
Zhong Fu Guo Yong (2004) No. Yi091795	24 March 2005	3,241.1	Industrial: 16 February 2043
	Total:	3,241.1	

b) Pursuant to the Real Estate Title Certificate Yue Fang Di Quan Zheng Zhong Fu Zi No. 0110013468 issued by People's Government of Zhongshan Municipal, the building ownership of the property with a total gross floor area of approximately 2,082.92 sq.m. has been grant to the Group.

c) We have been provided with a legal opinion on the property prepared by the Group's legal advisor, which contains, inter alia, the following information:

i) the Group has obtained the State-owned Land Use Rights Certificate and the building ownership certificate, is entitled to legally own the land use rights to the property.

ii) Pursuant to the instruction provided by the Group and verified by the lawyer, the site has not been mortgaged, seizured nor subject to any other dispute (save and except those parts which has been mortgaged).

iii) For the portion of the property which has been mortgaged, the Group must obtain the mortgagee's consent before transfer or otherwise dispose.

iv) The following portions of the site are subject to mortgages and the transfer, lease and mortgage of such portions shall be subject to the prior consent from the mortgagee:

Corresponding State-owned Land Use Rights Certificate or Building Ownership Certificate	Encumbrance Number	Date of instruments	Creditor
Zhong Fu Guo Yong (2004) No. Yi 09175, Yue Fang Zi Quan Zheng Zhong Fu Zi No. 0110013468	(2010) Zhong Yin Zui Di Zi No. 1606-1	19 November 2010	Guangdong Development Bank Zhongshan Branch with a loan of RMB3,702,800

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
4.	An industrial complex located at Fu Shan Industrial Zone, Zhugang Avenue, Doumen District, Zhuhai City, Guangdong Province, the PRC	The property comprise 3 industrial buildings with a total gross floor area of approximately 29,751.11 sq.m. and various ancillary constructions, occupying a site with an area of approximately 76,130.44 sq.m.. As advised by the Group, the property was completed in 2008. The site is held by a State-owned Land Use Rights Certificate for industrial use with a land use term to be expired on 11 December 2055.	The property is currently occupied by the Group as a factory plant.	60,600,000 (100.0% interests attributable to the Group: RMB60,600,000)

Notes:

a) Pursuant to the State-owned Land Use Rights Contract Zhu Guo Tu Gong Zi (Doumen) 2005 No. 2 dated 12 December 2005, the land use rights of a land with a site area of approximately 76,130.44 sq.m. has been contracted to be granted to the Group for industrial use with a consideration of RMB4,796,217.72.

b) Pursuant to the State-owned Land Use Rights Certificate Yue Fang Di Zheng Zi No. C4451021 dated 6 July 2006, the land use rights of the land, with a site area of approximately 76,130.44 sq.m., has been granted to the Group for industrial use with a land use term to be expired on 11 December 2055.

c) Pursuant to the following Real Estate Title Certificate issued by Zhongshan Land Resource and Building Management Bureau, the building ownership of the property with a total gross floor area of approximately 29,109.15 sq.m. has been grant to the Group.

Real Estate Title Certificate Number	Date of Issuance	Gross Floor Area *(sq.m.)*	Use
Yue Fang Di Quan Zheng Zhu Zi No. 0300021536	28 September 2010	29,109.15	Industrial
	Total:	29,109.15	

d) The buildings with a total gross floor area of approximately 641.96 sq.m. have not obtained the relevant real estate title certificates.

e) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

i) The Group has obtained the State-owned Land Use Rights Certificate, is entitled to legally own the land use rights to the site.

ii) Pursuant to the instruction provided by the Group and verified by the lawyer, the site has not been mortgaged, nor subject to any other dispute, the Group is entitled to occupy, use, lease, transfer or otherwise dispose of the site.

iii) In accordance to the PRC laws and regulations, for the buildings without Construction Works Completion Report, might be punished by the government of paying a fine of 2% to 4% of the construction cost.

iv) The following portions of the site are subject to mortgages and the transfer, lease and mortgage of such portions shall be subject to the prior consent from the mortgagee:

Corresponding State-owned Land Use Rights Certificate or Building Ownership Certificate	**Encumbrance Number**	**Date of instruments**	**Creditor**
Yue Fang Di Zheng Zi No. C4451021, Yue Fang Di Quan Zheng Zhu Zi No.0300021536	100609050	19 October 2010	Bank of Communications Zhuhai Branch with a loan of RMB57,000,000

VALUATION CERTIFICATE

Group II — Property interests rented by the Group for occupation in the PRC and Hong Kong

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
5.	Two Industrial complexes located in Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	As advised by the Group, the property comprises various warehouses, workshops, office buildings with a total gross floor area of approximately 47,225.04 sq.m. erected on a site area of approximately 89,673.10 sq.m.. The property was completed during 1995 to 2004. Pursuant to the tenancy agreement, the property is leased from Zheng Ye Group to Zheng Ye Packaging (Zhongshan) with respective terms from 1 January 2010 to 31 December 2013 and 1 October 2010 to 30 September 2013 each with an option on the part of Zheng Ye Packaging (Zhongshan) to renew for a further term of three years.	The property is occupied by the Group as workshop, warehouse, office.	No commercial value

Notes:

a) Pursuant to the State-owned Land Use Rights Certificates issued People's Government of Zhongshan Municipal, the land use rights of the land with a site area of approximately 89,673.10 sq.m. has been granted to the Zheng Ye Group with a land use term of 50 years for industrial use.

State-owned Land Use Rights Certificate Number	Date of Issuance	Site Area *(sq.m.)*	Use/Expire Date
Zhong Fu Guo Yong (2005) No. Yi090105	23 March 2005	12,799.80	Industrial: 16 February 2043
Zhong Fu Guo Yong (2005) No. Yi090116	7 April 2005	76,873.30	Industrial: 4 June 2043
	Total:	89,673.10	

b) Pursuant to the Real Estate Title Certificates issued People's Government of Zhongshan Municipal, a total gross floor area of approximately 36,474.62 sq.m. has been granted to the Zheng Ye Group.

Real Estate Title Certificate Number	Date of Issuance	Gross Floor Area (sq.m.)	Use/Expire Date
Yue Fang Di Zheng Zi No. C3439719	18 January 2006	3,366.6	Industrial: 4 June 2043
Yue Fang Di Zheng Zi No. C3439720	18 January 2006	8,481.04	Industrial: 4 June 2043
Yue Fang Di Zheng Zi No. C3466931	N/A	4,612.36	Industrial: 16 February 2043
Yue Fang Di Zheng Zi No. C36467030	7 April 2005	20,014.62	Industrial: 4 June 2043
	Total:	36,474.62	

c) As advised by the Group, the building with a total gross floor area of approximately 7,824.42 sq.m. is under the procedure of obtaining the building ownership certificate.

d) As advised by the Group, a workshop with a gross floor area of approximately 2,622 sq.m. and a canteen with a gross floor area of approximately 304 sq.m. have not obtained the building ownership certificate.

e) Pursuant to the tenancy agreement enter into between Zheng Ye Group (Party A) and the Group, Party A agreed to lease the property to the Group and some of the important terms stipulated in the tenancy agreements are, inter alia, as following:

i) The total monthly rent of RMB362,000 is agreed.

ii) The Group cannot sublet part or whole property to third party without written consent to Party A.

f) As advised by the Group, the lessor is the connected party to the Group.

g) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

i) The lessor has obtained the ownership of the property and has the rights to lease the property. (except the workshop and canteen of our lessors has not been granted the planning permit and commencement permit.)

ii) The tenancy agreement (Zhong Fang Zhu Dong Sheng Dan No.4) is legal, valid and enforced, has been registered with relevant authorities. The Group has obtained the Building Tenancy Certificate.

iii) The tenancy agreement (ZY2010-052) is legal, valid, enforced, but has not been registered with relevant authorities.

iv) The tenancy agreement (ZY2010-053) is void. The lessor has the right to claim for rental and retrieve the leased property. The Group has the right to claim for compensation according to the fault degree committed by the lessor.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
6.	Three workshops, located in Xindi Village, Huangpu Town, Zhongshan City, Guangdong Province, the PRC	As advised by the Group, the property comprises three workshops and warehouse with a total gross floor area of approximately 12,332.03 sq.m.. The property was completed in 2007. Pursuant to the tenancy agreement, the property is leased from Zhongshan City Huang Pu Town Industrial Development Limited to Yong Fa Paper with a 5 years term from 1 April 2009 to 31 March 2014.	The property is used as workshop and warehouse by the Group currently.	No commercial value

Notes:

a) We have not been provided the Real Estate Title Certificate of the property.

b) Pursuant to the tenancy agreement enter into between Zhongshan City Huang Pu Town Industrial Development Limited to Yong Fa Paper (Party A), Party A agreed to lease the property to the Group and some of the important terms stipulated in the tenancy agreements are, inter alia, as following:

   i) The total yearly rent of RMB102,971 is agreed.

   ii) The lease term is commenced from 1 April 2009 to 31 March 2014.

c) As advised by the Group, the lessor is the third party to the Group.

d) Zhongshan City Huang Pu Town Industrial Development Limited has undertaken in favour of Yong Fa Paper that they will make prompt compensation to Yong Fa Paper in full if the Yong Fa Paper shall suffer any loss as a result of any dispute or punishment in relation to the property right of the property during the leasing period.

e) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   i) According to the confirmation by the Group and research by the Group's PRC legal advisors, the site of the property is rural collective owned land.

   ii) The declaration is real, voluntary of the Zhongshan City Huang Pu Town Industrial Development Limited, is legal, valid and enforced.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
7.	A warehouse, located in Dongcheng Road, Dongsheng Town, Zhongshan City, Guangdong Province, the PRC	As advised by the Group, the property comprises a warehouse with a total gross floor area of approximately 4,392 sq.m.. The property was completed in 1990s. Pursuant to the tenancy agreement, the property is leased from Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited to Zheng Ye Packaging (Zhongshan) with a 8 years and 7 months term from 1 January 2010 to 28 July 2018.	The property is used as warehouse by the Group currently.	No commercial value

Notes:

a) We have not been provided the Real Estate Title Certificate of the property.

b) Pursuant to the tenancy agreement enter into between Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited and Zheng Ye Packaging (Zhongshan) (Party A), Party A agreed to lease the property to the Group and some of the important terms stipulated in the tenancy agreements are, inter alia, as following:

   i) The total yearly rent of RMB158,400 is agreed.

   ii) The lease term is commenced from 1 January 2010 to 28 July 2018.

c) As advised by the Group, the lessor is the third party to the Group.

d) Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited has undertaken in favour of Zheng Ye Packaging (Zhongshan) that they will make prompt compensation in full to Zheng Ye Packaging (Zhongshan) if Zheng Ye Packaging (Zhongshan) shall suffer any loss as a result of any dispute or punishment in relation to the property right of the property during the leasing period.

e) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisor, which contains, inter alia, the following information:

   i) According to the confirmation by the Group and the Group's PRC legal advisor, the site of the property is rural collective owned land.

   ii) The declaration is real, voluntary of the Zhongshan City Dongsheng Town Yong Sheng Economic Development Limited, is legal, valid and enforced.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
8.	An industrial complex located in No. 7 Economic Cooperation, Bai Li Village, Dong Sheng Town, Zhongshan City, Guangdong Province, the PRC	As advised by the Group, the property comprises a workshops, office, boiler house with a total gross floor area of approximately 28,904.07 sq.m.. The property was completed in 2010. Pursuant to the tenancy agreement, the property is leased from Zhongshan City Bai Li Town Villager Committee to Zheng Ye Alliance Packaging with a term from 16 August 2010 to 15 August 2020.	The property is currently occupied by the Group as workshops, office, boiler house.	No commercial value

Notes:

a) We have not provided the Real Estate Title Certificate of the property.

b) Pursuant to the tenancy agreement enter into between Zhongshan City Bai Li Town Villager Committee (Party A) and Zheng Ye Alliance Packaging, Party A agreed to lease the property to the Group and some of the important terms stipulated in the tenancy agreements are, inter alia, as following:

   i) The total monthly rent of RMB270,250 for the first 3-year contract is agreed.

   ii) The lease term is commenced from 16 August 2010 to 15 August 2020.

c) Zhongshan City Bai Li Town Villager Committee has undertaken in favour of Zheng Ye Alliance Packaging that they will make prompt compensation in full to Zheng Ye Alliance Packaging if Zheng Ye Alliance Packaging shall suffer any loss as a result of any dispute or punishment in relation to the property right of the property during the leasing period.

d) As advised by the Group, the lessor is the third party to the Group.

e) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

   i) According to the confirmation by the Group and the Group's PRC legal advisor, the site of the property is rural collective owned land.

   ii) The declaration is real, voluntary of the Zhongshan City Bai Li Town Villager Committee, is legal, valid and enforced.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
9.	A unit located in Zhengzhou Optic-mechanical Industrial Base, No. 55, Yulan Street, Gao Xin District, Zhengzhou City, Henan Province, the PRC	As advised by the Group, the property comprise an office unit with a total gross floor area of approximately 40 sq.m.. Pursuant to the tenancy agreement, the property is leased from Zhengzhou Gao Xin Stated-owned Asset Operation Limited (鄭州高新國有資產經營有限公司) to Zheng Ye Packaging (Zhengzhou) with a term from 20 April 2011 to 19 April 2012.	The property is used as office by the Group from 20 April 2011.	No commercial value

Note:

a) Pursuant to the Building Ownership Certificate issued Zhengzhou Real Estate Management Bureau, the owner of the building with a total gross floor area of approximately 6,946.78 sq.m., in which the property is located therein, is Zhengzhou Gao Xin Stated-owned Asset Operation Limited (鄭州高新國有資產經營有限公司).

b) Pursuant to the tenancy agreement enter into between Zhengzhou Gao Xin Stated-owned Asset Operation Limited (鄭州高新國有資產經營有限公司) (Party A) and the Group, Party A agreed to lease the property to the Group and some of the important terms stipulated in the tenancy agreements are, inter alia, as following:

  i) The total monthly rent of RMB640 is agreed.

  ii) The lease term is commenced from 20 April 2011 to 19 April 2012.

  iii) The Group cannot sublet part or whole property to third party without written consent to Part A.

c) As advised by the Group, the lessor is the third party to the Group.

d) We have been provided with a legal opinion on the property prepared by the Group's PRC legal advisors, which contains, inter alia, the following information:

  i) The lessor has obtained the ownership of the property and has the rights to lease the property.

  ii) The tenancy agreement is legal, valid and enforced.

  iii) The tenancy agreement has not been registered with relevant authorities.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2011 *(RMB)*
10.	Office Suite 1712, 17/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong	As advised by the Group, the property comprises an office unit with gross floor area of approximately 1,171 sq.ft. in a commercial building. The property is leased by AP SUCCESS LIMITED to the Group for a term of two years from 6 April 2011 to 5 April 2013 (both days inclusive). The monthly rent is HK$46,840 (exclusive of rates, management fee and air-conditioning charges).	The property is occupied by the Group as an office from 6 May 2011.	No commercial value

Notes:

a) According to the recent search in the Land Registry, the registered owner of the property is AP SUCCESS LIMITED as at the date of valuation.

b) We are advised that the registered owner is an independent third party of the Group.

Set out below is a summary of certain provisions of the memorandum of association and Bye-laws of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association states, among other matters, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act, the memorandum of association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside of Bermuda for a place of business in Bermuda.

In accordance with and subject to section 42A of the Companies Act, the memorandum of association of the Company empowers it to purchase its own Shares and, pursuant to its bye-laws, this power is exercisable by the directors of the Company (the "Directors") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws of the Company (the "Bye-laws") were adopted on 4 March, 2011. The following is a summary of certain provisions of the Bye-laws.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may, subject to the Companies Act and with the sanction of a special resolution, be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or, if so authorised by the memorandum of association of the Company, at the option of the holder. The Directors may subject to the approval of the members in general meeting, issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or relevant statutes of Bermuda to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Save as described in sub-paragraph (vi) below, there are no provisions in the Bye-laws relating to the making of loans or the giving of security for loans to Directors. However, the Companies Act contains restrictions on companies making loans and giving security for loans to their directors, the relevant provisions of which are summarised in paragraph 4(l) below.

(v) Financial assistance to purchase shares of the Company or its holdings company

(aa) subject to the provisions of all relevant statutes of Bermuda (see paragraph 4(b) below regarding the relevant provisions of the Companies Act), the Company may in accordance with an employees' share scheme provide money on such terms as the Directors think fit for the acquisition of fully or partly paid shares in the Company or its holding company. For the purposes of the Bye-law in this regard, an employees' share scheme is a scheme for encouraging or facilitating the holding of shares or debentures in the Company by or for the benefit of bona fide employees of the Company (including any such bona fide employee or former employee who is or was a Director), the Company's subsidiary or holding company or a subsidiary of the Company's holding company, or the wives, husbands, widows, widowers or children or step-children under the age of twenty-one (21) of such employees or former employees;

(bb) subject to the provisions of all relevant statutes of Bermuda, the Company may make loans to persons (including Directors) employed or formerly employed in good faith by the Company with a view to enabling those persons to acquire fully or partly paid shares in the Company or its holding company to be held by them by way of beneficial ownership; and

(cc) the conditions subject to which money and loans may be provided under the provisions of the Bye-laws summarised in paragraphs (aa) or (bb) above may include a provision to the effect that when an employee ceases to be employed by the Company, a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company, the shares acquired with such money or loans shall or may be sold to the Company or any other company on such terms as the Directors think fit.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

Subject to the Companies Act, a Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Companies Act and the Bye-laws, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associates' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associates is or has become so interested.

Save as otherwise provided by the Bye-laws, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associates is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

(aa) any contract or arrangement for the giving to the Director or his associates of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;

(bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his associates has himself/themselves guaranteed or secured in whole or in part;

(cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associates any privilege not accorded to any other members or debenture or other securities holders or to the public;

(dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his associates is/are interested as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any contract or arrangement concerning any other company in which the Director or his associates is/are interested directly or indirectly whether as an officer and/or executive and/or a member, other than a company in which the Director or his associates owns five per cent. (5%) or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights;

(gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director or his associates and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates both to Directors, associates of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his associates any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his associates may benefit; and

(ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associates, officer or employee pursuant to the Bye-laws.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of chairman, deputy chairman, managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting one third of the Directors for the time being (or if their number is not three (3) or a multiple of three (3), then the number nearest but not exceeding one third) will retire from office save for any chairman, deputy chairman, managing director or joint managing director. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than two (2). A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company) provided that the notice of any general meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director fourteen (14) days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for his removal. The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Directors may from time to time entrust to and confer upon the chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

Subject to the provisions of the Companies Act, the Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Act, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Bye-laws in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Bye-laws to hold any qualification shares.

(xi) Indemnity to Directors

The Bye-laws contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the approval of the Company in general meeting. As more fully described in paragraph 3 below, the Bye-laws provide that a special resolution is required to alter the memorandum of association, to approve any alteration to the Bye-laws and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

(i) increase its share capital;

(ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

(v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Act, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(vi) change the currency of denomination of its share capital; and

(vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its authorised or issued share capital, any capital redemption reserve fund or any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where voting is by poll, by proxy, at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right, a resolution may be proposed and passed as a special resolution at a meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days has been given.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). 'On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way. At all times during the Relevant Period (as defined in the Bye-laws) (but not otherwise), whereby any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

So far as permitted by the Companies Act, where a shareholder is a clearing house (as defined in the Bye-laws) or a nominee of a clearing house and, in each case, being a corporation, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Bye-laws shall be deemed to have been duly authorised without further evidence of the facts and shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

An annual general meeting must be held once in every year and within not more than fifteen (15) months after the last preceding annual general meeting or, as the case may be, its statutory meeting or such longer period as is permissible or not prohibited under the rules of the stock exchange of the Relevant Territory (as defined in the Bye-laws).

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by Companies Act affecting the Company or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors provided that such records as are required by the Companies Act shall also be kept at the registered office. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by Companies Act or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports as are required by the Companies Act. Every balance sheet of the Company shall be signed on behalf of the Directors by two (2) Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Act or of the Bye-laws. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice. However, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), the Company may send to such persons a summary financial statement derived from the

Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and their duties regulated in accordance with the Companies Act. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the place, the day and the hour of meeting and particulars of the resolutions to be considered at the meeting, in the case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the execution of the instrument of transfer by the transferor or the transferee of a share.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office in Bermuda.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four (4) persons jointly or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two (2) months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). Where applicable, the permission of the Bermuda Monetary Authority with respect thereto shall be obtained.

The registration of transfers may, on giving notice by advertisement in an appointed newspaper in Bermuda and in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's memorandum of association (which empowers the Company to purchase its own shares) by providing that the power is exercisable by the Directors upon such term and conditions as they think fit.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Bye-laws relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of contributed surplus (as to the meaning of this term, see paragraph 4(d) below).

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six (6) years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two (2) or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy or proxies representing either an individual or a corporate member shall be entitled to exercise the same powers on behalf of the member whom he or they represent as such member could exercise.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding twenty per cent. (20%) per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen (14) days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding twenty per cent. (20%) per annum as the Board may prescribe.

(q) Inspection of register of members

There are no provisions in the Bye-laws relating to inspection of the register of members as the matter is dealt with in the Companies Act (as to which see paragraph 4(m) below).

(r) Inspection of register of Directors

There are no provisions in the Bye-laws relating to the inspection of the register of Directors of the Company, as the matter is dealt with in the Companies Act (as to which see paragraph 4(m) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two (2) members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two (2) persons holding or representing by proxy one third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two (2) members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Bermuda company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three (3) occasions during a period of twelve (12) years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three (3) months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of twelve (12) years and three (3) months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

Subject to the provisions of the relevant statues of the Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Bye-laws as are applicable to paid up shares shall apply to stock, and the words "share", "shareholder" and "member" therein shall include "stock" and "stockholder".

(x) Other provisions

The Bye-laws provide that, to the extent that it is not prohibited by and is in compliance with Bermuda law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The memorandum of association of the Company may be altered by the Company in general meeting. In certain circumstances, consent to the amendment must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the memorandum of association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than twenty-one (21) clear days' notice and not less than ten (10) clear business days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company of except that the share premium account may be applied by the company:

(i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(ii) in writing off:

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased' may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of the company are held as treasury shares, the company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to the company in respect of shares held by the company as treasury shares; and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) shall be made to the company in respect of shares held by the company as treasury shares. Any shares allotted by the company as fully paid bonus shares in respect of shares held by the company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by the company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company. The directors of a company may, subject to the bye-laws of the company, exercise all the powers of the company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three (3) month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six (6) month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of the company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarised financial statements instead. The summarised financial statements must be derived from the company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarised financial statements sent to the company's members must be accompanied by an auditor's report on the summarised financial statements and a notice stating how a member may notify the company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarised financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of the company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by the company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by the company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as "resident" for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28 March, 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six (6) months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by the company in the ordinary course of that business, or (c) any advance of moneys by the company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows the company to advance moneys to an officer or auditor of the company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association'. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarised financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarised financial statements must be made available for inspection by the public at the registered office of the company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or bye-laws expires, or the event occurs on the occurrence of which the memorandum or bye-laws provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one (1) month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two (2) occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five (5) persons.

If a creditors' winding up continues for more than one (1) year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers as to Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI of this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation of our Company

Our Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act on 18 August 2010.

As our Company was incorporated in Bermuda, we operate subject to the relevant laws and regulations of Bermuda and our constitution which comprises a memorandum of association and the Bye-Laws. A summary of the relevant laws and regulations of Bermuda and of our Company's constitution is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) Increase in authorised share capital

(i) As of the date of incorporation of our Company, the authorised share capital was HK$200,000 divided into 2,000,000 Shares having a par value of HK$0.10 each. On 1 September 2010, one Share was allotted and issued, nil paid, to Mr. Hu Zheng. The one nil-paid Share referred to in this paragraph was subsequently paid up in the manner described in paragraph 4 below.

(ii) The authorised share capital of our Company was increased from HK$200,000 to HK$100,000,000 by the creation of 998,000,000 new Shares pursuant to a resolution passed by all Shareholders referred to in paragraph 3 below.

(iii) Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and upon the exercise of the Over-allotment Option, our authorised share capital will be HK$100,000,000 divided into 1,000,000,000 Shares, of which 500,000,000 Shares will be issued fully paid or credited as fully paid, and 500,000,000 Shares will remain unissued.

(iv) Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of us.

Save as disclosed herein and in the paragraphs headed "Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011" and "Group Reorganisation" of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of all Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011

By resolutions in writing of all the Shareholders passed on 4 March 2011, 9 March 2011 and 19 May 2011:

(a) we approved and adopted the Bye-Laws;

(b) the authorised share capital of our Company was increased from HK$200,000 to HK$100,000,000 by the creation of 998,000,000 new Shares;

(c) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (bb) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:

(i) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

(iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK$37,300,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 373,000,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 5 March 2011 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

(iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Bye-Laws, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa)

20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in subparagraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Bye-Laws, the Companies Act or any applicable Bermuda law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

(v) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed or recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of our share capital in issue immediately following the completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Bye-Laws, the Companies Act or any applicable Bermuda law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and

(vi) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

4. Group Reorganisation

The companies comprising our Group underwent a Reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange, which involved the following:

(a) On 5 July 2010, Zheng Ye (BVI) was incorporated in the BVI as a BVI business company with 50,000 authorised shares of US$1.00 each. On 30 September 2010, an aggregate of 1,000 shares of US$1.00 each were allotted and issued as fully paid at par by Zheng Ye (BVI), as to 510 shares to Hu Zheng Investment, 250 shares to Hu Hancheng Investment, 200 shares to Hu Hanchao Investment and 40 shares to Hu Hanxiang Investment;

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

(c) on 31 January 2011, Zheng Ye (BVI) acquired an aggregate of 100 shares of par value of HK$100 each in Zheng Ye International as to 70 shares from Mr. Hu Zheng and the remaining 30 shares from Mr. Hu Hanchao respectively, representing the entire issued share capital of Zheng Ye International, in consideration of and in exchange for which

Zheng Ye (BVI) allotted and issued, credited as fully paid, an aggregate of 9,000 shares of US$1.00 each in its capital, at the direction of Mr. Hu Zheng and Mr. Hu Hanchao, as to 4,590 shares to Hu Zheng Investment, 2,250 shares to Hu Hancheng Investment, 1,800 shares to Hu Hanchao Investment and 360 shares to Hu Hanxiang Investment; and

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

Upon completion of the Reorganisation, our Company became the holding company of our Group.

5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the accountants' report set out in Appendix I to this prospectus.

In addition to the alterations described in paragraph 4 above, the following alterations in the share capital of each of our Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) on 10 September 2010, Zheng Ye Packaging (He Fei) was established as a limited liability company under the laws of the PRC with a registered capital of RMB10,000,000. The entire equity interest in Zheng Ye Packaging (He Fei) was wholly owned by Zheng Ye Packaging (Zhongshan) on its establishment;

(b) on 28 October 2010, the authorised share capital of Yong Fa Paper was increased from HK$20,000,000 to HK$31,500,000 following its merger by absorption with Zhong Tang Shi Ye as more particularly described in "Corporate history, development and reorganisation — Overview" of this Prospectus; and

(c) on 27 April 2011, Zheng Ye Packaging (Zheng Zhou) was established as a limited liability company under the laws of the PRC with a registered capital of RMB10,000,000. The entire equity interest in Zheng Ye Packaging (Zheng Zhou) was wholly owned by Zheng Ye Packaging (Zhongshan) on its establishment.

Save as disclosed herein and in paragraph 4 above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Further information about our Group's PRC establishments

Our Group has interest in the entire registered capital of each the following seven enterprises established in the PRC. A summary of the corporate information of these enterprises as at the Latest Practicable Date are set out as follows:

(a) Yong Fa Paper

(i)	Name of the enterprise:	中山永發紙業有限公司 (Zhongshan Yong Fa Paper Industry Company Limited)
(ii)	Economic nature:	Wholly foreign-owned enterprise
(iii)	Registered owner:	Zheng Ye International
(iv)	Total investment:	HK$31,500,000
(v)	Registered capital:	HK$31,500,000
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 26 November 2003 to 23 November 2018
(viii)	Principal scope of business:	manufacturing and sale of paper, paperboard and other paper-based products (生產和銷售紙、紙板及其他紙製品)

(b) Zheng Ye Packaging (Zhongshan)

(i)	Name of the enterprise:	正業包裝(中山)有限公司 (Zheng Ye Packaging (Zhongshan) Company Limited)
(ii)	Economic nature:	Wholly foreign-owned enterprise
(iii)	Registered owner:	Zheng Ye International
(iv)	Total investment:	HK$12,000,000
(v)	Registered capital:	HK$12,000,000
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 25 August 2003 to 24 August 2018
(viii)	Principal scope of business:	manufacturing and operating of paper-based packaging products, packaging related business and printing of decorative packaging products (生產經營紙類包裝製品及包裝裝潢印刷品印刷)

(c) Zheng Ye Alliance Packaging

(i)	Name of the enterprise:	中山正業聯合包裝有限公司 (Zhongshan Zheng Ye Alliance Packaging Company Limited)
(ii)	Economic nature:	Wholly foreign-owned enterprise
(iii)	Registered owner:	Zheng Ye International
(iv)	Total investment:	RMB14,000,000
(v)	Registered capital:	RMB10,000,000
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 21 August 2006 to 20 August 2021
(viii)	Principal scope of business:	manufacturing and sale of paper-based packaging products and printing of decorative packaging products (生產和銷售紙類包裝製品,包裝裝潢印刷品印刷)

(d) Zheng Ye Packaging (Zhuhai)

(i)	Name of the enterprise:	珠海正業包裝有限公司 (Zhuhai Zheng Ye Packaging Company Limited)
(ii)	Economic nature:	Limited liability company (wholly owned by a wholly foreign-owned enterprise)
(iii)	Registered owner:	Shing Yip (Hong Kong)
(iv)	Total investment:	HK$12,000,000
(v)	Registered capital:	HK$12,000,000
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 25 August 2005 to 25 August 2020
(viii)	Principal scope of business:	manufacturing and sale of own paper-based packaging products and related packaging business, printing of decorative packaging materials (生產和銷售自產的紙類包裝製品及相關包裝業務，包裝裝潢印刷品印刷)

(e) Zheng Ye Packaging (He Fei)

(i)	Name of the enterprise:	合肥市正業包裝有限公司 (He Fei City Zheng Ye Packaging Company Limited)
(ii)	Economic nature:	Limited liability company (wholly owned by a wholly foreign-owned enterprise)
(iii)	Registered owner:	Zheng Ye Packaging (Zhongshan)
(iv)	Registered capital:	RMB10,000,000
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	From 10 September 2010 to 9 September 2025
(vii)	Principal scope of business:	manufacturing of paper-based packaging products and printing of decorative packaging materials (紙類包裝製品生產，包裝裝潢印刷品印刷)

(f) Zhong Tang Recycling

(i)	Name of the enterprise:	中山市中糖廢紙回收有限公司 (Zhongshan City Zhong Tang Waste Paper Recycling Company Limited)
(ii)	Economic nature:	Limited liability company (wholly owned by a wholly foreign-owned enterprise)
(iii)	Registered owner:	Yong Fa Paper
(iv)	Total investment:	RMB500,000
(v)	Registered capital:	RMB500,000
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 16 February 2001 to 15 February 2021
(viii)	Principal scope of business:	purchase and wholesale business of waste paper (廢紙收購和批發業務)

(g) Zheng Ye Packaging (Zheng Zhou)

(i)	Name of the enterprise:	鄭州正業包裝有限公司 (Zheng Zhou Zheng Ye Packaging Company Limited)
(ii)	Economic nature:	Limited liability company (foreign invested enterprise)
(iii)	Registered owner:	Zheng Ye Packaging (Zhongshan)
(iv)	Registered capital:	RMB10,000,000
(v)	Attributable interest to our Group:	100%
(vi)	Term of operation:	From 27 April 2011 to 26 April 2026
(vii)	Principal scope of business:	Sales of paper-based packaging products (銷售紙類包裝制品)

7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all the Shareholders on 4 March 2011, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Bye-Laws or applicable Bermuda law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Bye-Laws and the Companies Act. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under Bermuda laws, any repurchase of shares may only be effected out of capital paid up on the repurchased shares or out of the funds of our Company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase. Any premium payable on a repurchase over the par value of the shares to be repurchased must be provided for out of funds of our Company which would otherwise be available for dividend or distribution or out of our Company's share premium account before the shares are repurchased.

(c) Reasons for repurchases

The Directors believe that it is in the best interest of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Bye-Laws, the Listing Rules and the applicable laws of Bermuda.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or our gearing position as compared to the position of our Group disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue immediately after the Listing, would result in up to 50,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Office Suite 1712, 17th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance. Mr. Hu Zheng, our executive Director and Mr. Lau Wang Lap, our company secretary, have been appointed as agents of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

9. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

(a) On 9 June 2010, a trademark transfer agreement (商標轉讓合同) was entered into between Zheng Ye Group as transferor and Zheng Ye Packaging (Zhongshan) as transferee for the transfer by Zheng Ye Group to Zheng Ye Packaging (Zhongshan) of the trademark registered in the PRC with registration number 3385050 at nil consideration;

(b) On 18 June 2010, a share transfer agreement (股權轉讓協議) was entered into between Zheng Ye Group and Mr. Hu Hanchao as transferors, Yong Fa Paper as transferee and Zhong Tang Recycling for the transfer by Zheng Ye Group and Mr. Hu Hanchao of their 60% interest and 40% interests respectively in the registered capital of Zhong Tang Recycling (equivalent to RMB300,000 and RMB200,000 respectively) to Yong Fa Paper at a consideration of RMB785,000 and RMB523,000 respectively;

(c) On 28 June 2010, a share transfer agreement (股權轉讓協議) was entered into between Zheng Ye Group as transferor and Zheng Ye International as transferee for the transfer by Zheng Ye Group of its 70% equity interest in the registered capital of Zhong Tang Shi Ye (equivalent to RMB7,000,000) to Zheng Ye International at a consideration of RMB16,000,000;

(d) On 28 July 2010, a share transfer agreement (股權轉讓協議) was entered into between Zheng Ye Group as transferor and Zheng Ye International as transferee for the transfer by Zheng Ye Group of its 51% interest in the registered capital of Zheng Ye Alliance Packaging (equivalent to RMB5,100,000) to Zheng Ye International at a consideration of RMB5,100,000;

(e) On 2 August 2010, a trademark transfer agreement (商標轉讓合同) was entered into between Zhong Fa Equipment as transferor and Yong Fa Paper as transferee for the transfer by Zhong Fa Equipment to Yong Fa Paper of the trademark registered in the PRC with registration number 3440531 at nil consideration;

(f) On 18 August 2010, a merger agreement (合併協議) was entered into between Yong Fa Paper and Zhong Tang Shi Ye for the merger by absorption of Zhong Tang Shi Ye by Yong Fa Paper and the succession by Yong Fa Paper (as the surviving company continue to remain in existence after the merger by absorption) of the entire assets, business, rights as creditors, interests, rights, debts, liabilities and obligations of Zhong Tang Shi Ye upon completion of the merger by absorption;

(g) On 6 September 2010, a trademark transfer agreement (商標轉讓合同) was entered into between Zhong Fa Equipment as transferor and Yong Fa Paper as transferee for the transfer by Zhong Fa Equipment to Yong Fa Paper of the trademark registered in the PRC with registration number 3385049 at nil consideration;

(h) on 4 March 2011, a share purchase agreement was entered into between (i) Hu Zheng Investment, Hu Hancheng Investment, Hu Hanchao Investment and Hu Hanxiang Investment (the "Vendors") as vendors; (ii) the Hu Brothers as warrantors; and (iii) our Company as purchaser for the acquisition by our Company of the entire issued share capital of Zheng Ye (BVI) from the Vendors in consideration of and in exchange for which our Company, (i) allotted and issued, credited as fully paid, an aggregate of 1,999,999 Shares, as to 1,019,999 Shares to Hu Zheng Investment, 500,000 Shares to Hu Hancheng Investment, 400,000 Shares to Hu Hanchao Investment and 80,000 Shares to Hu Hanxiang Investment; and (ii) credited as fully paid at par one nil paid Share then held by Mr. Hu Zheng;

(i) on 19 May 2011, a deed of indemnity was executed by the Controlling Shareholders in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed "Estate duty, tax and other indemnities" of this Appendix; and

(j) the Hong Kong Underwriting Agreement.

10. Intellectual property rights of our Group

(a) Registered trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks:

No.	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Zheng Ye Packaging (Zhongshan)	PRC	16	5762362	14 March 2010 to 13 March 2020
2.	正 业	Zheng Ye Packaging (Zhongshan)	PRC	16	3385050	21 September 2004 to 20 September 2014
3.		Zheng Ye Packaging (Zhongshan)	PRC	16	8206760	21 April 2011 to 20 April 2021
4.		Yong Fa Paper	PRC	16	3440531	28 December 2004 to 27 December 2014

(b) Trademarks under application for registration

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks:

No.	Trademark	Applicant	Place of application	Class	Application number	Application Date
1.	"A" "B"	The Company	Hong Kong	16 and 40	301825993	1 February 2011

(c) Domain name

As at the Latest Practicable Date, our Group was the registrant of the following domain name:

Domain name	Registration date	Expiry date
www.zhengye-cn.com	16 November 2001	16 November 2011

Save as disclosed in this prospectus, there are no trademarks, patents or other intellectual or industrial property rights which are material in relation to the business of our Group.

11. Connected transactions and related party transactions

Save as disclosed in the section headed "Connected Transactions — Continuing connected transactions" of this prospectus and in note 34 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material connected transactions or related party transactions.

FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SHAREHOLDERS

12. Directors

(a) Disclosure of interests of Directors

(i) Each of Mr. Hu Zheng, Mr. Hu Hancheng, Mr. Hu Hanchao and Mr. Hu Hanxiang is interested in the Reorganisation.

(ii) Save as disclosed in this prospectus, none of our Directors or their associates was engaged in any dealings with our Group during the two years immediately preceding the date of this prospectus.

(b) Particulars of Directors' service contracts

Each of our executive Directors has entered into a service contract with our Company pursuant to which each of them agreed to act as an executive Director for an initial term of three years commencing from 4 March 2011, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term. The appointment of each of our executive Directors may be terminated by either party by giving three months' written notice to the other.

Each of our executive Directors is entitled to a basic salary subject to an annual increment after 31 December 2011 at the discretion of our Directors of not more than 10% of the annual salary immediately prior to such increase. In addition, each of our executive Directors is also entitled to a discretionary management bonus for the financial year ended 31 December 2011 and onwards provided that the aggregate amount of the bonuses payable to all our executive Directors for any financial year of our Company may not exceed 5% of the audited consolidated or (if applicable) combined net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him.

Each of our non-executive Director and independent non-executive Directors has been appointed for an initial term of one year commencing from 4 March 2011. The appointment of each of our non-executive Director and independent non-executive Directors may be terminated by either party by giving three months' written notice to the other. Save for directors' fees payable to our non-executive Director and independent non-executive Directors as stated in paragraph (c) immediately below, none of our non-executive Director and independent non-executive Directors is expected to receive any other remuneration for holding their office as non-executive Director and independent non-executive Director respectively.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Remuneration of Directors

(i) The basis annual salaries of our executive Directors and the basis annual director's fees of our non-executive Director and independent non-executive Directors are as follows:

Name	Annual amount
Executive Directors	
Mr. Hu Zheng	RMB2,500,000
Mr. Hu Hancheng	RMB2,200,000
Mr. Hu Hanchao	RMB2,200,000
Non-executive Director	
Mr. Hu Hanxiang	RMB360,000
Independent non-executive Directors	
Mr. Chung Kwok Mo John	HK$150,000
Mr. Wu Youjun	RMB85,000
Mr. Zhu Hongwei	RMB85,000

The basic annual salaries and the basic annual directors' fees may be reviewed annually after 31 December 2011 provided that the annual increment for executive Directors shall not be more than 10% of their respective salaries immediately prior to such increase.

(ii) The executive Directors may be granted a discretionary management bonus for the financial year ended 31 December 2011 and onwards provided that the aggregate amount of bonuses for all our executive Directors for a financial year shall not exceed 5% of the audited consolidated or (if applicable) combined net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) of that financial year.

(iii) During the year ended 31 December 2010, the aggregate of the remuneration paid and benefits in kind granted by our Company and other members of our Group to our Directors were approximately RMB1,176,000.

(iv) Under the arrangements currently in force at the date of this prospectus, the aggregate of the remuneration (excluding discretionary bonus) payable by our Company and other members of our Group to, and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2011, are expected to be approximately RMB5,812,000.

(v) No amount was paid to, or receivable by, our Directors, for each of the three financial years of the Company immediately preceding the issue of this prospectus as an inducement to join or upon joining the Company.

(vi) No compensation was paid to, or receivable by, our Directors (including past Directors) for each of the three financial years of our Company immediately preceding the issue of this prospectus for the loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(vii) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years of our Company immediately preceding the issue of this prospectus.

(d) Interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering

Immediately following completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director	**Name of Group member/ associated corporation**	**Capacity/nature of interest**	**Number and class of securities** *(Note 1)*	**Approximate percentage of shareholding**
Mr. Hu Zheng	Our Company	Interest of controlled corporation *(Note 2)*	191,250,000 Shares (L)	38.25%
	Hu Zheng Investment	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hancheng	Our Company	Interest of controlled corporation *(Note 3)*	93,750,000 Shares (L)	18.75%
	Hu Hancheng Investment	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanchao	Our Company	Interest of controlled corporation *(Note 4)*	75,000,000 Shares (L)	15%
	Hu Hanchao Investment	Beneficial owner	1 ordinary share of US$1.00	100%
Mr. Hu Hanxiang	Our Company	Interest of controlled corporation *(Note 5)*	15,000,000 Shares (L)	3%
	Hu Hanxiang Investment	Beneficial owner	1 ordinary share of US$1.00	100%

Notes:

1. The letter "L" denotes our Directors' long position in the shares of our Company or the relevant associated corporation.

2. These shares will be held by Hu Zheng Investment, which is wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng is deemed to be interested in the Shares held by Hu Zheng Investment.

3. These shares will be held by Hu Hancheng Investment, which is wholly owned by Mr. Hu Hancheng. By virtue of the SFO, Mr. Hu Hancheng is deemed to be interested in the Shares held by Hu Hancheng Investment.

4. These shares will be held by Hu Hanchao Investment, which is wholly owned by Mr. Hu Hanchao. By virtue of the SFO, Mr. Hu Hanchao is deemed to be interested in the Shares held by Hu Hanchao Investment.

5. These shares will be held by Hu Hanxiang Investment, which is wholly owned by Mr. Hu Hanxiang. By virtue of the SFO, Mr. Hu Hanxiang is deemed to be interested in the Shares held by Hu Hanxiang Investment.

13. Interest discloseable under the SFO and the substantial shareholders

So far as is known to our Directors or the chief executive of our Company, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted, and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Global Offering" above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name of Shareholders	Company/Name of Group member	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Hu Zheng Investment	Our Company	Beneficial owner	191,250,000 Shares (L)	38.25%
Ms. Li Lifen *(note 2)*	Our Company	Interest of spouse	191,250,000 Shares (L)	38.25%
Hu Hancheng Investment	Our Company	Beneficial owner	93,750,000 Shares (L)	18.75%
Ms. Li Si Yuan *(note 3)*	Our Company	Interest of spouse	93,750,000 Shares (L)	18.75%
Hu Hanchao Investment	Our Company	Beneficial owner	75,000,000 Shares (L)	15%
Ms. He Lijuan *(note 4)*	Our Company	Interest of spouse	75,000,000 Shares (L)	15%

Notes:

1. The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in such shares.

2. Hu Zheng Investment is wholly owned by Mr. Hu Zheng. By virtue of the SFO, Mr. Hu Zheng is deemed to be interested in the Shares held by Hu Zheng Investment, subject to any borrowing arrangement which may be effected by the Stock Borrowing Agreement. Ms. Li Lifen is the spouse of Mr. Hu Zheng. Under the SFO, Ms. Li Lifen is taken to be interested in the same number of Shares in which Mr. Hu Zheng is interested.

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

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

14. Disclaimers

Save as disclosed in this prospectus:

(a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, our Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Global Offering and the Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(b) none of our Directors and the chief executive of our Company has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

(c) none of our Directors nor any of the experts referred to in the paragraph 22 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) none of our Directors nor any of the experts referred to in the paragraph 22 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and

(e) save in connection with the Underwriting Agreements, none of the experts referred to in the paragraph 22 below:

(i) is interested legally or beneficially in any securities of any member of our Group; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

15. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme, which fully complies with chapter 17 of the Listing Rules, conditionally adopted by a resolution in writing passed by all the Shareholders on 19 May 2011:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of us so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("Invested Entity") in which any member of us holds an equity interest;

(bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of us or any Invested Entity;

(dd) any customer of any member of us or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;

(ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity;

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of us;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of us to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of us.

(iii) Maximum number of the Shares

(aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by us must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of us) to be granted under the Share Option Scheme and any other share option scheme of us must not in aggregate exceed 10% of the Shares in issue on the Listing Date, being 50,000,000 Shares ("General Scheme Limit").

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of us must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of us) previously granted under the Share Option Scheme and any other share option scheme of us will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2) (d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of us (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to our Directors, chief executive or substantial shareholders of our Company or their respective associates

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK$5.0 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the 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 our 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 our 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.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise

Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which our Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of us as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (cc) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the option period in respect of such option;

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and

(cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Estate duty, tax and other indemnity

The Controlling Shareholders (together, the "**Indemnifiers**") have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract (i) referred to in paragraph 9 above) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing Date; and

(b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group, or taxation claims which any member of our Group are liable or sought to be made liable, in respect of any income, profits or gains earned, accrued or received on or before the Listing Date, or transactions or events entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation liability or claims mentioned in paragraph (b) immediately above:

(i) to the extent that provision or reserve has been made for such taxation, liabilities or claims in the audited accounts of any member of our Group up to the end of the Track Record Period;

(ii) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing after the Track Record Period and ended on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

(aa) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Track Record Period; or

(bb) carried out, made or entered into pursuant to a legally binding commitment created before the end of the Track Record Period or pursuant to any statement of intention made in this prospectus; or

(iii) to the extent that such taxation liabilities or claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such taxation liabilities or claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or

(iv) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to the end of the Track Record Period and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, the Indemnifiers have also undertaken to us that they will indemnify and at all times keep us fully indemnified, on a joint and several basis, from and against all depletion in or reduction in value of assets, increase in liabilities, losses (including without limitation, confiscation of income and/or assets, suspension of operation), claims, actions, proceedings, demands, orders, notices, liabilities, damages, costs (including legal costs on a full indemnity basis), expenses, interest, fines, penalties, payments and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with any of the following (collectively, the "**Indemnifying Matters**"):

(a) the implementation of the corporate reorganisation of our Group in the preparation for the Listing as described in this prospectus;

(b) all breaches and non-compliance or alleged non-compliance by any member of our Group, on or before the Listing Date, with any applicable PRC laws, rules and regulations in relation to housing provident funds as referred to in the paragraph headed "We have not effected registration with the relevant local housing provident fund management centers, maintained housing provident fund accounts in designated banks and made contributions towards payments of housing provident funds for our employees in the PRC prior to August 2010" in the "Risk factors" section of this prospectus; and

(c) all breaches, non-compliance and/or violation of, by any member of our Group on or before the Listing Date, any applicable PRC laws, rules and regulations in relation to all the matters as referred to in the paragraph headed "Legal and regulatory matters" in the "Business" section of this prospectus which are not otherwise covered by paragraphs (a) and (b) immediately above,

provided that the Indemnifiers are under no liability under the deed of indemnity in respect of the Indemnifying Matters:

(i) to the extent that provision or reserve has been made for the relevant Indemnifying Matters in the audited accounts of any member of our Group for any accounting period up to the end of the Track Record Period; or

(ii) to the extent that any provision or reserve made for the Indemnifying Matters in the audited accounts of any member of our Group for any accounting period up to the end of the Track Record Period which is finally established to be over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of the Indemnifying Matters shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of the Indemnifying Matters shall not be available in respect of any such liability arising thereafter.

17. Litigation, arbitration and claim of material importance

Save as disclosed in this prospectus, as at the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial conditions of our Company.

18. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$31,200 and are payable by our Company.

19. Promoter

(a) Our Company does not have any promoter.

(b) Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

20. Agency fees or commissions received

The International Underwriters shall receive a commission of 3.5% of the aggregate Offer Price of the International Placing Shares underwritten by the International Underwriters and the Hong Kong Underwriters shall receive an underwriting commission of 2.5% of the aggregate of the Offer Price of the Hong Kong Public Offer Shares underwritten by the Hong Kong Underwriters, out of which they shall pay any sub-underwriting commissions.

The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, based on the Offer Price of HK$1.43 per Offer Share, are estimated to amount to approximately HK$37.8 million in total (assuming that the Over-allotment Option is not being exercised).

21. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme, being 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

22. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
CMB International Capital Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Chiu & Partners	Qualified Hong Kong lawyers
Conyers Dill & Pearman	Bermuda barristers and attorneys
Jingtian & Gongcheng	Qualified PRC lawyers
CB Richard Ellis Limited	Professional property valuer

23. Consents of experts

Each of CMB International Capital Limited, Deloitte Touche Tohmatsu, Chiu & Partners, Conyers Dill & Pearman, Jingtian & Gongcheng and CB Richard Ellis Limited has given and has not withdrawn its written consents to the issue of this prospectus with the inclusion of its opinion, advice, report, valuation, letter or an extract therefrom (as the case may be) and the references to its name in the form and context in which it appear.

24. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

25. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

26. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus:

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since the end of the Track Record Period (being the end of the period reported on in the accountants' report set out in appendix I to this prospectus);

(c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;

(d) none of the equity and debt securities of our Company is listed or dealt in on any other stock exchange or on which listing or permission to deal is being or is proposed to be sought;

(e) there are no arrangements under which future dividends are waived or agreed to be waived; and

(f) none of the members of our Group has any outstanding securities or debentures.

27. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND THE REGISTRAR OF COMPANIES IN BERMUDA

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the sub-paragraph headed "Consents of experts" in the paragraph headed "Other information" in Appendix V to this prospectus; and

(c) copies of the material contracts referred to in the sub-paragraph headed "Summary of material contracts" in the paragraph headed "Further information about the business of our Company" in Appendix V to this prospectus.

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Bermuda for filing were copies of the Application Forms.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including 8 June 2011:

(a) the memorandum of association of our Company and the Bye-Laws;

(b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of companies comprising our Group for each of the three financial years ended 31 December 2010 (or the period since their respective dates of incorporation of the relevant member of our Group where it is shorter), if any;

(d) the letter prepared by Deloitte Touche Tohmatsu on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;

(e) the valuation report (including a letter, a summary of value and the valuation certificate) prepared by CB Richard Ellis Limited relating to the property interests of our Group, the text of which is set out in Appendix III to this prospectus;

(f) the Companies Act;

(g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Bermuda company law as referred to in Appendix IV to this prospectus;

(h) the legal opinions prepared by Jingtian & Gongcheng in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(i) the legal opinion prepared by Chiu & Partners in relation to the validity of the trust arrangements in respect of shares in Zheng Ye International and Shing Yip (Hong Kong);

(j) the material contracts referred to in the sub-paragraph headed "Summary of material contracts" under the paragraph headed "Further information about the business of our Company" in Appendix V to this prospectus;

(k) the service contracts referred to in the sub-paragraph headed "Particulars of Directors' service contracts" under the paragraph headed "Further information about our Directors and our Shareholders" in Appendix V to this prospectus;

(l) the rules of the Share Option Scheme; and

(m) the written consents referred to in the sub-paragraph headed "Consents of experts" under the paragraph headed "Other information" in Appendix V to this prospectus.

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